Funding Mechanisms for Public Transportation:
A Review of Local Match Practices and Public-Private Partnerships

[Map showing locations with state abbreviations: OR, CO, KS, MI, OH, NC, VA, TX, VT]
Abstract

Federal Transit Administration (FTA) funding is made available to urban, small urban, and rural transportation providers on a formula or competitive basis depending on the recipient and type of transit service. Most formula programs require a local funding match that ranges from 10 percent to 50 percent of a program's funding. Local sources for match include, but are not limited to, non-transportation federal funds, state and local taxes, advertising revenue, in-kind contributions, and donations. Establishing local match funding streams and securing the longevity of those funding streams can prove challenging.

FTA has provided operating and capital transit funding at 100-percent federal share during the coronavirus pandemic. Anticipating that local match requirements will return for FTA's formula funding programs; this report provides an overview of how localities in Texas and seven other U.S. states are financing local match. In addition, the report includes an overview of in-kind funding and a look at public-private partnerships in Arkansas, Colorado, North Carolina, and Texas. Understanding that local governments and regional agencies will look for resources on and peer examples of transit funding for the next several years, the report provides a recommendation for the NADO Research Foundation and regional planning organizations to conduct a local funding resources roundtable to discuss local funding options, particularly in relation to programs continued or established through the 2021 Infrastructure and Jobs Investment Act.

About the NADO Research Foundation

Founded in 1988, the NADO Research Foundation is the nonprofit research affiliate of the National Association of Development Organizations (NADO) that identifies, studies, and promotes regional solutions and approaches to improving local prosperity and services through the nationwide network of regional development organizations. The NADO Research Foundation shares best practices, offers professional development training, analyzes the impact of federal policies and programs on regional development organizations, and examines the latest trends in small metropolitan and rural America. In addition, the Research Foundation helps bridge the communications gap among practitioners, researchers, and policymakers. Learn more at www.NADO.org and www.RuralTransportation.org.

This report was authored by NADO Senior Program Manager Rachel Beyerle. Research support was provided by NADO Associate Director Carrie Kissel and NADO Graduate Fellow Austin Barrington. Thank you to the Ark-Tex Council of Governments for identifying local funding sources as a research need. This report was prepared under a contract from the United States Department of Agriculture Rural Business Development Grant Program. USDA is an equal opportunity provider. Any opinions, findings and conclusions, or recommendations expressed in this publication are those of the author and stakeholders and do not necessarily reflect the views of the funding agency. Any mention of a specific company, product, or service in this report does not constitute or imply an endorsement by the research team.
Contents

Introduction 4
Federal Funding Sources 4
Local Funding Sources 5
---- Texas 6
Local Funding Sources: Other State Examples 7
---- Colorado 7
---- Kansas 8
---- Michigan 8
---- Ohio 9
---- Oregon 9
---- Vermont 9
---- Virginia 10
In-Kind Match 10
Public-Private Partnerships 11
---- Arkansas 11
---- Colorado 11
---- North Carolina 11
---- Texas 11
Coronavirus Pandemic Impacts 11
---- Impacts on Public Transportation Industry 12
---- Impacts on Small Urban and Rural Public Transportation 12
Summary and Next Steps 12
---- Local Funding Sources Roundtable 13
---- Sample Roundtable Agenda 13
Conclusions 13
References 14
Federal Funding Sources

The U.S. Department of Transportation (U.S. DOT) is one of several federal agencies that fund public transportation services. When small urban and rural transportation providers receive FTA funds and are required to provide local match, a source that may not often be considered is non-U.S. DOT federal funds. While not all federal programs can be used in combination with U.S. DOT dollars, a number of programs do allow the federal-to-federal match. When allowed, the process is called federal fund braiding.

In recognition that funding streams and eligibility can be complex, leading to inefficiencies in transit provision, Executive Order 13330 (2004) established a federal Coordinating Council on Access and Mobility (CCAM) to improve the accessibility, availability, and efficiency of transportation services for people with disabilities, older adults, and individuals of low income. The Secretary of the U.S. Department of Transportation chairs CCAM, and in addition to U.S. DOT members include the following federal departments and agencies: Agriculture, Education, Health and Human Services, Housing and Urban Development, Interior, Labor, and Veterans Affairs, as well as the U.S. Attorney General’s office, the National Council on Disability, and the Social Security Administration.

In August 2020, CCAM released a policy statement that “CCAM agencies agree that Federal grantees should coordinate their transportation resources where possible, including sharing costs for mutually beneficial transportation services, in order to maximize the availability and efficiency of transportation services. Cost-sharing arrangements include both vehicle and ride sharing as well as Federal fund braiding for local match across Federal programs.2

In addition to the policy statement, CCAM also released a Federal Fund Braiding Guide. The basic definition of federal fund braiding is when funds from one federal program are used to meet match requirements for another federal program. An example would be using U.S. Department of Health and Human Services Administration for Community Living funding as match for a U.S. DOT Federal Transit Administration-funded program. As noted in the guide, a project that receives funds from more than one federal program must meet all requirements of the participating federal agencies, including eligibility requirements, reporting requirements, regulatory requirements, statutory requirements, and program guidance.3 As of October 2019, 130 federal programs are able to provide funding for human services transportation for people with disabilities, older adults, and/or individuals of low income.

The federal statute authorizing a program ultimately determines whether federal program funds can be applied as matching or cost-sharing resources. A transportation provider’s state-funding agency and federal regional office are resources for learning more about federal fund braiding options for public transportation programs.

Introduction

The National Association of Development Organizations Research Foundation (NADO RF), in partnership with the Western Transportation Institute at Montana State University (WTI), and the Neponset Valley Transportation Management Association with the National Rural Transit Assistance Program (National RTAP) provides transportation technical assistance through the support of the U.S. Department of Agriculture Rural Development program. Technical assistance is designed to assist regional decision-making for projects that are expected to generate economic outcomes, improve quality of life through mobility connections, support members of the rural workforce, and offer value through improved economic development and resiliency.

NADO RF prepared this report in 2019 at the request of Ark-Tex Council of Governments in Texarkana, Texas. Ark-Tex COG administers transportation programs for the Rural Transit District (TRAX), and through an interlocal agreement, the Texarkana Urban Transit District (TUTD). The request stemmed from an interest in improving workforce transportation and identifying local funding options for the region. This report summarizes NADO RF research on potential sources of local funding match and recommendations for next steps.

Research for this report began immediately before the March 2020 coronavirus pandemic lockdown in the United States. When the research began, U.S. Department of Transportation, Federal Transit Administration (FTA) Section 5307, Section 5310, and Section 5311 grant programs required a local match that was based on the program and whether funds are used for capital or operating purposes. As the coronavirus pandemic continued, FTA made federal funding available at 100-percent federal share for capital, operating, and other expenses through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. In December 2020, additional federal funding with no local match requirement was granted through the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA). Recognizing that the 100-percent federal share framework may not last long term, NADO RF researched types of local match sources used in Texas and other states should the U.S. Department of Transportation and other federal agencies return to the percentage share match requirements.

This report includes sections on federal sources of match, general local funding sources, Texas local funding sources, and examples of funding from other states. In addition, the report includes sections on public-private partnerships, and coronavirus pandemic impacts on public transportation.
Local Funding Sources

In addition to federal funds as a potential source of local match, state, regional, city, and county sources may be used as local match. What is allowed and how funds can be applied varies state to state. In order to identify example types of match funds, the NADO Research Foundation staff reviewed state transit plans and the American Association of State Highway and Transportation Officials (AASHTO) 2020 Survey of State Funding for Public Transportation.

In the 2020 survey—subsequently updated for the year 2021—state department of transportation public transportation divisions were surveyed to identify what type of local funding sources are used in their state. The types of local funding identified include city or county general fund allocations, farebox revenue, advertising, service contracts, donations, sales tax, and property tax. 4

Within these categories, specific examples of types of funding are:

- Sales tax
- Gas tax

AASHTO survey respondents indicated that the most common sources of local transit funding are city/county general funds (40 states responding), farebox revenue (39 states responding), advertising (35 states responding), service contracts (32 states responding), and donations (25 states responding). According to the survey, local sources of funding being used in Texas include gas taxes, general funds, donations, farebox revenue, service contracts, and advertising.

---

Review of Local Funding Source and Public-Private Partnerships for Public Transportation

The diagram above illustrates the distribution of funding sources and public-private partnerships across the United States. Each state is color-coded to indicate the types of funding sources reviewed, public-private partnerships, and funding and partnerships review.
The Mineta Transit Research Consortium’s 2014 report, *Enhancing Transit Service in Rural Areas and Native American Tribal Communities: Potential Mechanisms to Improve Funding and Service* indicate that general funds are the primary source of local funds. The report identifies the following sources of general funds:

**Taxes:** sales, use, property, cigarette, gas/fuel, corporate franchise, severance, hotel/motel, employer/payroll, and realty transfer among other taxes

**Fees:** parking fees and fines, vehicle registration, utility fees, vehicle leasing and rental fees, and mortgage recording fees, among other fees

**Revenues:** tolls, advertising, concessions/rental income, casino/lottery revenues, among other revenues

In order to take a closer look at how local funding is used in Texas and how the Texas funding structure compares with funding structures in other states, NADO RF staff reviewed state transit plans from Texas, Vermont, Michigan, Colorado, Kansas, Ohio, Oregon, and Virginia that listed local funding sources for transit within those states, with particular attention to sources that fall within the categories of taxes, fees, and revenues. In FY 2018, Texas and Oregon had the most similar levels of state funding when compared to the other states included in this report. Texas’ funding is reviewed first and then the other state examples follow. A brief takeaway is provided in bold text after each state’s write-up. In addition to the state examples, public-private partnerships in Arkansas and North Carolina are included.

**Texas**

The Texas Department of Transportation prepared two partner reports, *A Study of Sources Used for Local Revenue for Transit* and the 2013 *Foundations Funding Search for Small Urban and Rural Transit Providers in Texas*, that provide an overview of transit funding in the state. The Sources report includes a typology list of the types of public transportation funding and match sources available in the U.S. The typology is listed below. A few of the categories have already been mentioned in the earlier federal funding section.

**Transit-generated revenues:** Fares or revenue from direct business activity

**Federal funds:** Transportation funds granted by the U.S. Department of Transportation or another non-U.S. DOT agency

**Government revenue and taxes:** Broad-based taxes including sales tax, property tax, personal income tax, and general fund dollars

**Motor fuel and vehicle-related taxes:** Separate from general fund; tax from transportation resources to support transportation resources

User or market-based sources: “New or innovative” and may include tolling, congestion pricing, emissions fees, and energy taxes applied at the local level

**Business activities:** Taxes and fees on business-related activities (examples include employer/payroll taxes, gross receipts taxes, corporate franchise taxes, hotel/occupancy taxes)

**Personal activities:** Taxes associated with gambling, tobacco, alcohol, or substance sales

**Revenue stream from transit projects:** Examples include transit-oriented development, value capture, impact fees, tax increment financing, business improvement districts, community development districts, air rights, right-of-way leases

**Financing mechanisms:** Strategies for leveraging debt include bonds, capital leases, tax credit bonds, and state infrastructure banks

According to the 2013 Texas DOT report, Texas public transportation systems have used the following types of funding sources during the past decade:

- Fares
- Contract services with other agencies or governments
- University student fees
- Lease and sale revenue from facilities
- Advertising (e.g., bus wraps, shelters, food vending concessions)
- Donations from businesses or non-profits
- In-kind services
  - Ark-Tex example: contributed labor from individuals on probation who conducted janitorial services including cleaning buses, bus stops, and transit offices. Program yielded $200,000 in 2012.
  - Ark-Tex example: Workforce Solutions of Northeast Texas contributed time valued at approximately $100,000 in 2012 dollars to educate clients about Ark-Tex transportation and for setting up transportation services for their clients.
- Non-FTA Federal Funds (Other Transportation funds, Aging, Health and Human Services, Labor, Education, Agriculture, Housing and Urban Development, Veterans Affairs)
  - Ark-Tex COG example: The Rural Transit District has had a contract with Area Agency on Aging (AoA funding) to transport older adults in district free of charge. Reimbursements yielded $300,000 in 2012.
- Texas General Fund Sales and Property Taxes are used in select cities in Texas.
- Transit Tax and Local Option Sales Tax used in several Texas cities to support transit.
- Tax Increment Financing
• Air rights, bond rights, capital leases. Air rights have been used in Dallas-Fort Worth.
• Motor Fuel and vehicles-related taxes are used for highway expenditures only.

At the time of the 2013 report, the following funding sources were not commonly used in Texas. Other states may be taking advantage of these funding opportunities as allowed:

• Economic Development sales taxes
• Toll/user charges (toll credits/transportation development credits are more commonly used)
• General sales and property taxes go to the general fund
• Business-related taxes
• Hotel and occupancy tax is for tourism and convention purposes only not transit
• Lottery, tobacco, alcohol taxes
• Community facility districts

Texas A&M Transportation Institute prepared the 2018 Sources of Funding Transit in Texas which provides an overview of transit systems in Texas, sources of federal, state, and local funding, and the types of local revenue used in the state. The 2018 report lists fares, cash contributions, contributed non-cash services that include physical assets, and local dedicated sales tax as funding sources in Texas.

Non-transit related revenue in Texas at that time included investment earnings, sales of maintenance services, vehicle rentals, rentals of transit facility buildings, meeting rooms, parking fees, development fees, or rental car fees, and other local government contracts. In 2016, rural area transit systems in Texas reported using Greyhound contracts and charter service (Alamo area), auction of vehicles and advertisements, and leasing of office space (Southwest Area RTD), and interlocal agreements with three cities, hospital and senior services contracts (STAR Transit).

Looking specifically at Ark-Tex Council of Governments’ Rural Transit District FY 2016 revenues for capital and operating expenses, the following sources are listed along with the approximate percentage of total revenues:

• FTA funds (55%)
• Non-FTA federal funds (7%)
• State funding (21%)
• Fares (3%)
• Local cash contributions (0.5%)
• Non-cash contributions (11.5%)
• Non-transit revenues (0.5%)
• Other contracts (1.4%)

The Texarkana Urban Transit District’s revenue for FY 2016 consisted of the same categories of funding with FTA funding contributing almost 74 percent of the total revenue, state funding at nine percent of total revenue, and local cash providing over seven percent of revenue.

In 2019, Ark-Tex COG received $510,410 in toll/transportation development credits (TDCs) combined for their grant projects. The funding was instrumental in providing local match for the COG.

Texas Takeaway: Texas transportation providers use contract service agreements, partnerships, and select use of property and sales tax to support public transit. Other states included in this report appear to place greater emphasis on special taxes, sales and property taxes, and transportation-related user fees to fund transit.

Local Funding Sources: Other State Examples

While various revenue streams have been used in Texas over the past decade, identifying local funding match sources in the COVID-19 recovery period may prove challenging as local governments and regional organizations balance service needs with shifts in tax revenue. For this reason, NADO Research Foundation staff reviewed how local match funding is provided in seven other states. The states are diverse in geography, policy, and funding frameworks. The following section outlines information gathered from Colorado, Kansas, Michigan, Ohio, Oregon, Vermont, and Virginia.

The revenue models from the other states are offered for consideration as Texas transportation providers discuss local funding mechanisms moving forward. As the regulatory environment differs state to state, the feasibility of applying a type of local funding in Texas or within a specific region of the state would need to be explored in a separate analysis.

Colorado

Colorado updated its Statewide Transportation Plan and Statewide Transit Plan (2045) in August 2020. The Financial Snapshot in the Statewide Transit Plan acknowledges that Colorado transit providers “use a patchwork funding approach” to finance transit (p. 40). The Statewide Transit Plan explains that in 2017, the Colorado State Legislature approved Senate Bill 267 (SB-267), which allocated $500 million in general funds for each of four years to address transportation needs. At least 10 percent, or $50 million, is allocated to transit capital projects annually. Twenty-five percent of the SB-267 transit funds are allocated to CDOT projects, and approximately 50 percent of funds are to be allocated to CDOT and partner agency projects, and 25 percent of funds are allocated to local agency transit improvement projects. For the funding to continue beyond the
Local transit funding sources in Colorado include fares, donations, and tax revenues (e.g., lodging, sales, and property tax). Due to limited state funding for transit, local governments use a variety of local funding sources. These local sources include:

- Lodging taxes
- Parking fees
- Property taxes
- Public-private partnerships
- Rural transportation authorities
- Sales and use taxes
- Sponsorship/donations
- Tourism taxes
- Utility taxes or fees
- Vehicle fees

Douglas County, Durango, Grand Junction, Montrose, and Mesa County in Colorado and their funding mechanisms are featured in the National Aging and Disability Transportation Center’s Topic Spotlight on Innovative Approaches to Section 5310 Funding Match. In Douglas County a real estate mill levy is assessed on homes to support county disabilities programs. A portion of the funding ultimately contributed to cash match for the Denver Regional Mobility and Access Council.

In the city of Durango, a Transportation Services Enterprise Fund was established that uses parking meter revenue and portion of the city lodgers’ tax to support transit. In Grand Junction and Montrose, All Points Transit uses foundation funding, non-profit support, and local funding from two cities, three counties, and six towns. Grand Valley Transit in Mesa County, Colorado, uses an intergovernmental agreement for transit funding that splits the costs by varying percentages among Mesa County, City of Grand Junction, City of Fruita, and the Town of Palisades. The intergovernmental agreement builds in flexibility by allowing the percentages and commitments to change depending on the needs of the participating jurisdictions.

Colorado takeaway: Intergovernmental agreements, tourism and visitor taxes, and real estate taxes support public transit.

**Kansas**

The 2008 Kansas Department of Transportation Long Range Transportation Plan identifies 15 Coordinated Transit Districts in the state to which a service provider must belong in order to receive public transit funding. The plan’s chapter on Meeting Future Transportation Funding Needs acknowledges that solutions to closing transportation revenue gaps can also pose dilemmas. For example, the dispersed population of Kansas is viewed as limiting tolling or private investment opportunities. At the time that the plan was drafted, 18 percent of Kansas’ transportation revenue came from local and other sources. Two-thirds of the state’s motor fuel tax, other state transportation funding sources, bond proceeds, federal revenues, and some local matching funds are deposited into the State Highway Fund and allocated to highway, transit, aviation, freight rail, and local programs. In Kansas, more than half of local transportation funding comes from city and county general funds. Bonding is used at the local level, as well as sales or property taxes. Cities may create Transportation Development Districts to establish sales tax of up to one percent to service transportation-related debt. Table 6-7 of Chapter 6 of the Kansas Long Range Transportation Plan includes an evaluation table of varying types of funding source, taxes, and fees and states that are using the funding methods.

The Kansas Department of Transportation draft 2045 Long Range Transportation Plan is open for public comment in spring 2021. The state acknowledges in the plan’s draft Revenue Forecast that sales and use taxes are expected to become a larger share of KDOT’s funding in the next two decades. With this projected shift comes risk if the taxes are not marked for transportation and are general purpose revenues that could be redirected for Kansas General Fund purposes.

Kansas takeaway: A statewide transportation district framework establishes sales and use tax structure to support public transit.

**Michigan**

According to the AASHTO 2020 State Survey of Public Transportation Funding Report Table I-4, Michigan’s state funding sources for public transportation funding derive from vehicle sales tax, gas tax, and vehicle registration and license taxes. A Finance White Paper prepared as part of the Michigan 2040 Long Range Transportation Plan, states that as of 2015, almost ten percent of new gas tax and vehicle registration fees will go toward a Comprehensive Transportation Fund (CTF) for transit and/or rail. Michigan has worked to use state funds to meet the non-federal match requirement for public transportation capital awards. To meet the commitment or to provide at least two-thirds of non-federal capital match, Michigan DOT has supplemented its CTF financing with toll revenue credits, bond financing, and general fund monies.

For a broader view of transit financing in Michigan, the NADO RF staff reviewed the Michigan Department of Transportation’s 2030 State Long-Range Transportation Plan Finance Technical Report. Page 22 of the Finance Technical Report states that the CTF supports three major programs: local transit operating assistance, public transportation development, and intercity passenger and freight. Local transit funding sources are included in local budgets submitted to Michigan DOT. Millages
and local general funds are the sources of the majority of local funds used in the state.

**Michigan takeaway:** A portion of gas tax, transportation-related fees, and toll, bond and general fund financing support public transit.

---

**Ohio**

According to a 2015 Ohio Department of Transportation Transit Needs Study, local funds provided 55 percent of Ohio transit agencies’ funding in 2012. As the state’s General Revenue Fund support for transit declined after 2009, Ohio began to rely more on flexing FHWA funds for state transit funding. Local support for transit in Ohio comes from fares, sales and property taxes, earnings taxes, contract revenues, local general fund contributions, and miscellaneous resources such as advertising. Ohio permits local governments to levy sales and/or property taxes for transit, and these are commonly used by larger, urbanized systems in the state. Smaller transit agencies in the state—which typically have a smaller tax base and ridership from which to draw revenues—are more likely to draw from local jurisdiction contributions and contract revenues from agreements with human services agencies, universities, and other institutions.

**Ohio takeaway:** Flexing funds from the Federal Highway Administration, property and sales tax revenue, and establishing contracts and partnership agreements with local agencies and higher education institutions are used to support public transit in the state.

---

**Oregon**

The 2015 Oregon State Management Plan for Public Transportation Programs provides information on local funding sources for Section 5311 transit match. At the time of the report, Oregon Department of Transportation was using a sliding scale match rate. Operating projects had a federal share of 56.08 percent and a local match of 43.92 percent. Capital grants, administration, and mobility management planning all had a federal share of 89.73 percent with a local match of 10.27 percent. State formula funds can be used as local match along with other local sources. Local sources are cash donations, government contributions, and agency-earned income. Contract revenue, with exception of farebox revenue, can be used for local match. Some transit pass programs—for example those established with universities—can count as contract revenue. In-kind contributions are allowed; however, they are limited to one half of local match.

A 2017 information sheet titled Public Transportation Funding in Oregon explains the types of state funding available in Oregon. The major sources are a special transportation fund that receives revenue from cigarette taxes, non-highway use gas tax, ID card revenues, and the state’s general fund. Another source is a state mass transit payroll tax, which is payment by state agencies to eligible transit districts based on salaries of state employees in the district. For rail transit, a portion of Oregon Department of Motor Vehicles fees for custom vehicle plates can be applied toward match. In addition to this state funding, the 2017 information sheet identifies three primary sources of local funding in the state: payroll taxes, property taxes, and earned revenues from fares and advertising. Local governments may choose to use local general funds, transportation impact fees, special assessments, and utility fees.

**Oregon takeaway:** A portion of gas tax, transportation-related fees, and toll, bond and general fund financing support public transit.

---

**Vermont**

In 2016, the Vermont Agency of Transportation (VTrans) submitted a consultant-prepared Vermont Public Transit Local Funding Study for the Vermont state legislature. In 2016, fees that could be used for public transportation funding were vehicle inspection fees, vehicle rental tax, Vermont Department of Motor Vehicles registration fees, heavy vehicle registration fees, light duty diesel gasoline registration fees, vehicle purchase and use fees. The consultants completing the study for VTrans noted that other fees not collected by the state that could be considered for evaluation

“Transit can win at the ballot box when a major infrastructure project, such as a new transit center, comes up for a vote.”

2016 Vermont Public Transit Local Funding Study (p. 12)
include vehicle lease fees, ad valorem fees, bicycle registration fees, electric vehicle fees, VMT fees, income tax allocation, corporate tax allocation, and sales tax allocation (p. 11,12). Regional assessment districts are identified as an option if service is provided at a regional level. A regional assessment could be for transportation in general with a specific set-aside for transit.

Specific to local government funding, concepts discussed in the report include property tax and a line-item budgetary contribution to the regional transit system, state-mandated local contributions to transit, and incentives such as tying town road funding to transit funding. An example of how an incentive would work is described on page 16 of the Vermont report: “…the State could offer the town the full $1,000 per mile if the town agrees to allot 40% of that funding ($400 per mile) to public transit, leaving $600 per mile for roadway improvements. If the town does not agree to allot the 40% to public transit, then it would receive only $400 per mile total for the roadway improvements, and the rest of the money would be redistributed to other towns. Under this scheme, the public transit provider would be the beneficiary of a substantial new source of funds, and the roads in the towns would also benefit from improved maintenance.”

Other possible funding mechanisms include a vehicle registration fee, mortgage recording tax, new development contributions, employer participation in unlimited access programs (no out-of-pocket costs) tied to an employer flat annual fee. The last could be considered by larger employers such as manufacturers, medical centers, large retailers, and military support employers. Other traditional methods of raising local funding include local options taxes (food, alcohol, lodging) that are used in various towns across the U.S. The Vermont report includes case studies on funding mechanisms used by several states between 2010 and 2020.

Vermont takeaway: Consider transportation-related user fees and local tax allocations to support public transit.

Virginia

In 2019, the Virginia Transportation Research Council prepared A Guide to Transportation Funding Options Available to Virginia Jurisdictions. The guide states that all Virginia local jurisdictions may exercise taxing authority to the extent allowed under statutory law.26 Local options and taxes are restricted depending on the county or town. For example, towns do not have the local option to use sales tax revenue toward transportation, and at the time of the report, only Arlington and Fairfax counties could use cigarette tax revenues as a transportation funding source. Examples of county-level funding sources used in the past decade include real property taxes, local options sales tax set asides, motor vehicle license tax set asides (which may not exceed state rates), and public right-of-way fees.

The Research Council Report includes a list of discretionary grant funding sources used in Virginia in 2016. Transportation districts in the state used a regional fuel tax to support projects, property taxes on land use for commercial or industrial use were a source used by Transportation Improvement Districts, additional real property taxes were used by several towns and counties, tolling, a regional fuel tax, congestion relief fees, and as noted earlier, cigarette taxes, a sales tax set aside, and right-of-way fees were used by a few jurisdictions.

The Virginia Department of Rail and Public Transportation's FY22 Transit and Commuter Assistance Grant Application Manual identifies the following as match sources for operating assistance funds:

- Local tax levies
- Local general funds
- Donations from individuals or organizations
- Advertising revenues from non-taxpayer entities
- Contract revenue from non-taxpayer entities
- Funds received from metropolitan planning organizations (MPOs) for planning activities (i.e., pass-through of 5303 funds MPOs receive).

Virginia takeaway: Where local sales tax restrictions exist, special fees (e.g., cigarette tax), a regional fuel tax, and right-of-way fees have been used to support public transit.

In-Kind Match

In addition to examining how monetary funding streams are used for public transportation financing, NADO Research Foundation staff reviewed how in-kind match is being used. In-kind funding is a way that local agencies can coordinate and share capital assets at times when cash flow is limited. The National Cooperative Highway Research Program (NCHRP) 20-65 Task 75 Use of In-Kind as Match for Federal Transit Administration Awards guidebook defines in-kind match as “…a service or good that a Federal Transit Administration (FTA) recipient or subrecipient receives without incurring any expense but the recipient or subrecipient would have paid for in the normal course of business.” (2020, 1)24 The guidebook explains federal requirements relate to in-kind match and eligible match types. Examples of in-kind match types include:

- Equipment
- Goods and services
- Indirect costs
- Intercity bus
- Labor
- Land and buildings
- Rental space
- Travel expenses
- Vanpool credits
The case studies included in the NCHRP guidebook explain how transportation providers are utilizing in-kind match. OATs Transit in Missouri uses volunteer hours, newspaper space, donated office and parking. The Missoula Ravalli Transportation Management Association (TMA) in Montana has a lease agreement with the University of Montana for a transfer center, offices, and parking located on university land. The TMA owns the building, and the university owns the land. An example of goods and services is in Lemhi County, Idaho, where Lemhi Rides participates in the county’s insurance and maintenance program.

The San Carlos Apache Tribal Transit system in Arizona includes indirect costs through volunteer labor and the Temporary Assistance to Needy Families (TANF) employment training project. TANF training program participants clean and maintain vehicles, facilities, and grounds and perform nonconfidential secretarial and dispatch functions. The West Virginia Department of Transportation Division of Public Transit uses unsubsidized connecting intercity bus service operated by Greyhound Lines, Inc. as in-kind for intercity feeder service.

The Potomac Rappahannock Transportation Commission in northern Virginia uses the capital cost of vanpool acquisitions and leases by private providers of vanpools as “credits” for capital projects. Finally, travel costs can be used as in-kind if they are deemed reasonable and necessary to the federal award. Each type of in-kind match has specific rules and federal requirements. A transportation provider wishing to implement in-kind match should research FTA’s guidance to understand the benefits and requirements associated with each example.

Public-Private Partnerships

Partnerships and contractual agreements between businesses and public transportation providers open additional opportunities for riders to more easily reach employment and retail services, for employers to attract and retain employees, and for businesses to attract customers who use local public and specialized transportation. Public-private partnerships can consist of contractual agreements, volunteer hours, advertisement revenue, and corporate or foundation donations. A few examples from Arkansas, North Carolina, Colorado, and Texas are included here.

Arkansas

Ozark Regional Transit (ORT) received funding from the Walton Family Foundation to extend ORT’s free fare service through 2021. ORT launched fare-free service in 2018 in Fayetteville, and the zero-fare policy expanded to Springdale and Rogers in 2019. In April 2020, ORT expanded the program throughout service area. The decision was made to “...ease cost barriers to transportation for underrepresented communities, to attract new riders and to support local municipalities dealing with the financial impacts of covid-19.”

Colorado

With anticipated downturns in state transit funding, Durango Transit, like other fixed-route transit systems across the country, has made decisions to cut routes to meet its budget. The system has received coronavirus relief funding to enhance access, yet with nearly 80 percent of riders dependent on the system for mobility, Durango is limited in the geographic reach of its services. Durango Transit is seeking sustainable sources of local funding, and possible options are public-private partnerships or sales tax increases. Of Colorado’s 10 largest rural transit agencies, eight use sales or property taxes or both for transit service. Durango does not have a dedicated local funding source. Options include an increase to the existing lodgers tax (a ballot measure in 2021), which would add about $500,000 each year to the budget.

North Carolina

In September 2020, GoDurham Transit opened a new bus stop shelter at the Glenn View Station Walmart with the support of the retailer, City of Durham, and GoTriangle. The bus stop is the third busiest stop in GoDurham’s service area. The updated bus stop features two shelters with built-in solar lights, benches, a trash receptacle, a cart corral, and a bike rack. GoDurham plans to install an electronic bus arrival information sign.

Texas

The Paris (Texas) Metro transit system utilized partnerships to procure funding for new service. The Paris Regional Medical Center, United Way of Lamar County, Paris Junior College, the City of Paris, The Results Company, Texas Oncology, and local private foundations are among the entities that contributed to help get Paris Metro up and running. In addition to financial contributions, the Paris Regional Medical Center donated office space.

Coronavirus Pandemic Impacts

The coronavirus pandemic has resulted in decreased public transportation trips by individuals who have the option to work from home, including students and individuals who have postponed or cancelled medical trips. In addition, individuals are not traveling as much to reach social activities. The effects on farebox revenue are only one part of the equation. Other elements include health concerns of operators and riders and the overarching impact of decreased fuel tax and local funding revenues on transportation funding streams. This situation runs
parallel with the continued transportation needs of employees and individuals who rely on transit to reach essential positions or employment that requires in-person attendance, and for those seeking access to food, retail, and public services. In a July 2020 letter to U.S. House of Representatives and U.S. Senate leaders, the American Association of State Highway and Transportation Officials (AASHTO) stated that nationwide vehicle traffic reduction “bottomed out at 50 percent during the height of the pandemic.”33 In July 2020, AASHTO estimated that state departments of transportation would experience state transportation revenues of $37 billion through FY2024.

Impacts on Public Transportation Industry
A January 2021 analysis conducted by EBP US, Inc. for the American Public Transportation Association (APTA) states that public transportation systems are facing a $39.3 billion shortfall through the end of 2023, and nationally, transit ridership in 2020 dropped by 79 percent compared to 2019 levels.34 It is anticipated that where possible, some transit agencies may need to reallocate capital budgets to address operations shortfalls and additional health and protection measures needed to continue service. The analysis notes that revenues from state and local taxes may see a 25 percent decline in the early 2021 followed by a gradual return to normal. Retail expenditures increased in 2020 over 2019; however, sales tax revenue is affected by whether sales are conducted online or locally.

Impacts on Small Urban and Rural Public Transportation
In January 2021, the Community Transportation Association of America (CTAA) addressed a letter to U.S. House and Senate leaders about Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA) in which it was stated that 68 percent of rural transit providers responding to a CTAA survey cut service in 2020. Twenty-five percent of rural providers who added service did so to support meal and prescription delivery.35 Ridership loss averaged 50 percent from January 2020 levels.

Summary and Next Steps
The purpose of this research on public transportation local funding resources has been to highlight funding options available and to provide examples of how local match is used for capital and operating functions. Transit funding frameworks depend on regulatory frameworks, as well as public response in the form of referenda, partnerships, and creativity. Ark-Tex COG and other regional development organizations may choose to use this report as a reference when discussing future funding options in Texas and with local governments. Public transit funding is an ever-moving target, particularly in a pandemic environment. It is acknowledged that the information shared in this report may not be the most up-to-date information available, and the status of funding in the eight states and in the localities mentioned may have changed in reaction to the coronavirus pandemic and changes in federal funding structures and match requirements.
Local Funding Sources Roundtable

In light of the uncertainty surrounding funding streams in the coronavirus pandemic and pandemic recovery periods, the NADO Research Foundation recommends a roundtable discussion among NADO members and industry peers regarding transit funding, match options, engagement and outreach with public officials on transit funding topics, and outreach to riders and the public. Recommended agenda topics include:

- Overview of pandemic and post-pandemic transit funding among NADO members who operate public transportation based on a member query
- NADO members share local match funding streams under discussion within their regions (for example, three RDOs share their experience)
- Framework for discussing transit funding and investment with local officials and public (may include handouts with tips for framing language and how to explain transit funding to different audiences)
- Facilitated roundtable discussion with invited RDO speakers
- Question and Answer
- Resources and handouts posted to www.NADO.org and www.RuralTransportation.org

Sample Roundtable Agenda

NADO Research Foundation
Local Funding Sources Roundtable
Sample Agenda

1. Welcome and Introductions
2. Overview of Coronavirus Pandemic Public Transportation Funding for Small Transit Systems
3. Post-Pandemic Funding Outlook
4. RDO Examples of Projected Local Funding Match and Opportunities
5. “Talking transit” with local officials and the public (including tools and frameworks for discussing funding for existing and new service)
6. Facilitated Roundtable Discussion
7. Question and Answer
8. Wrap-Up and Resources

Conclusions

The states and transportation systems reviewed for this report are supporting public transportation through a mix of transportation-specific and general funds. Setting up innovative tax structures is dependent on political will and public interest. Dedicated revenues from sales and property taxes, special use taxes, and motor vehicle fees are commonly used for local funding. Tourism-related taxes and university partnerships are also used in several states. Less common—perhaps because of the coordination required and the unpredictability of long-term viability—are in-kind sources and public-private partnerships. Once established; however, transit systems in Texas and other states are experiencing successful outcomes from partnership-funded projects.

Ark-Tex COG, and other Texas regions have an opportunity to coordinate with local governments to explore tourism, lodging, and recreation taxes as potential local funding sources, particularly as travel and outdoor recreation rebound after the pandemic. In addition, discussions with major private-sector employers could result in cost savings or new funding streams. Examples include transit shelter improvements that Walmart has supported in other states, Commercial Driver’s License (CDL) training partnerships with transportation industry employers in the region, and private sector donations.
References


5 Mineta Transit Research Consortium. (2014). Enhancing Transit Service in Rural Areas and Native American Tribal Communities: Potential Mechanisms to Improve Funding and Service https://merritt.cdlib.org/d/ark%3A%2F13030%2Fm50305n0%3A/producer%2F890415059.pdf


10 Personal communication with Chris Brown, Ark-Tex Council of Governments, December 2021


