

Sacramento Regional Transit Master Plan

**Chapter 9 - Finding the Funding:
How To Pay For The Plan**

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Prepared for:

Sacramento Regional Transit District

Prepared by:

Steer Davies Gleave
1000 - 355 Burrard Street
Vancouver, BC V6C 2G8
Canada

+1 604 608 6198
www.steerdaviesgleave.com

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9 Finding the Funding: How to Pay for the Plan

Introduction

- 9.1 The TransitAction Plan provides RT and Sacramento with a bold vision for how transit will become an integral part of life in Sacramento. The plan is creative and visionary in terms of the types of service provided, the hours and frequency it will operate and technologies that it will use. However, in order to fund the plan over the next 25-30 years, RT will need to be equally creative on the sources of funding it uses.
- 9.2 So while this Chapter does not prescribe exactly how the plan will be funded, it does provide a summary of RT's existing funding sources/mechanisms and a menu of funding options that could be used in combination to fund the full Transit Action Plan.

How Regional Transit is Currently Funded

- 9.3 Regional Transit is currently funded from a number of different revenue sources. These that can be grouped into the following three categories:
- Operating revenues (fares, contract services, other operating income);
 - Local and state assistance; and
 - Federal assistance.

[[THE INFORMATION IN THIS SECTION IS DRAWN FROM FY2008 NUMBERS. GIVEN RECENT DEVELOPMENTS AT THE STATE LEVEL, SUGGEST RT PROVIDES WORDING RE:STA FUNDS]]

Operating Revenues

- 9.4 Operating revenues consist of fares, contract services and advertising and are the only revenue sources that RT has full control over.
- 9.5 Fare revenues make up the majority of operating revenues and in FY 2008, fare revenues were approximately \$30m or around 21% of RT's total operating costs. Fares are set by the RT Board and the average fare collected per passenger is approximately \$0.85-\$0.90. In 2005, Regional Transit undertook a fare review study which resulted in a Board adopted policy to raise fares by 20% fare every five years (equals 3% annually).
- 9.6 In addition to fare revenues, RT is paid for its contract services by neighboring jurisdictions for transit services provided by RT. Approximately 80% of the \$5 million in annual revenues come from contracts with the Cities of Folsom and Citrus Heights.
- 9.7 RT also receives approximately \$1.2m per year from advertising.

Local and State Assistance

- 9.8 RT receives revenues from various local and state sources that in FY 2008 made up 58% of total revenues. The majority of revenues come from sales tax through Measure A and the Local Transportation Fund.
- 9.9 Measure A is a local sales tax measure which adds some \$44.9 million per year in revenues. The State Constitution authorizes cities and counties to impose up to one

percent additional local sales taxes, if approved by voters in the local jurisdiction, to improve transportation and relieve congestion. Sacramento is one of 17 counties that have voted for an additional ½% sales tax towards transportation.

- 9.10 Regional Transit receives 38.25% of the sales tax revenues of which 34.5% is for operating and maintenance expenses and 3.75% for capital improvements. Any funds used for capital improvements must be matched with 2/3 from other funding (federal, state or local) sources. Measure A will expire in 2039.
- 9.11 In addition to the sales tax, the Transportation Expenditure Agreement also stipulates that 20% of the Sacramento Countywide Transportation Mitigation Fee, a fee charged to new developments to mitigate the cost of traffic impacts, must go towards capital improvements for transit.
- 9.12 The Local Transportation Fund (LTF) was established in 1972 under the Transportation Development Act and stipulates that a ¼% of the state sales tax must be returned to the counties for the sole purpose of funding local and regional transit services. The apportionment of sales tax revenues to each county is population based, but is also based on policy and guidelines outlined in the Transportation Development Act Guidelines (2007). RT generally uses the funds for transit operations and bus replacements.
- 9.13 State Transit Assistance, a program under the Transportation Development Act, allocates revenues from the Public Transportation Account (PTA) which is made up of state sales tax on gasoline and diesel plus ‘spill-over’ sales tax revenues to public transit. The revenues are allocated based on a combination of population and prior year’s transit revenues.
- 9.14 Every two years, the State of California allocates funds to selected projects that reduces congestion and improve transportation, including transit projects through the State Transportation Improvement Program (STIP). Public transit projects included in STIP are programmed for funding from the Public Transportation Account. For projects to be eligible for funding, they have to be included in the Regional Transportation Improvement Plan (RTIP) which is developed by SACOG.
- 9.15 In 1990, California voters approved two bond measures: Propositions 108 and 116. RT received \$154 million under Proposition 108 (Passenger Rail and Clean Air Act) and \$100 million under Proposition 116 (Clean Air and Transportation Improvement Act) for rail improvements. These two funding sources contributed more than half of the revenue for the South Line and Amtrak/Folsom light rail extension projects.

Federal Assistance

- 9.16 In 1998, the Transportation Equity Act for the 21st Century, or "TEA-21", was enacted. This legislation ensures that transit spending is guaranteed at the legislated amount and cannot be used for other purposes than transit. TEA-21 consists of several formula funds:
 - I Formula Grant Section 5309 is a transit capital investment program and provides capital assistance for eligible projects included in TIP and STIP for three activities:

- Bus and Bus Facilities, - provides capital assistance for new and replacement buses and related equipment and facilities.
 - Fixed Guideways - provides funding for transit service that uses exclusive or controlled rights-of-way or rails, entirely or in part., and
 - New Starts - provides funds for construction of new fixed guideway systems or extensions to existing fixed guideway systems.
 - Section 5307 - Large Urban Cities Program - formula funds makes federal resources available through the Federal Transit Administration to urbanized areas (areas with more than 50,000 inhabitants) for transit capital and operating assistance. TEA-21 allows RT to use Section 5307 funds for capital projects and for bus and light rail vehicle maintenance. Up to 10 percent of the funds can be used for paratransit services. Federal funds have to be matched with local funds and cannot exceed 80% of the net project cost.
 - Section 5308 - Clean-Fuels Formula Grant Program - provides grants to public transit operators to use on clean-fuel technologies for their bus fleets.
 - Section 3037 - Job Access Reverse Commute Program - provides grants to local governments to develop transportations services to connect welfare recipients and low-income persons to employment and support services. This includes providing improved transit services from urban residential areas to suburban employment opportunities. The funding can be used for both capital and operating purposes. The funding has to be matched 50% by local funds.
- 9.17 RT also receives funding from the Congestion Mitigation and Air Quality Program (CMAQ), which is a flexible federal funding programs (funding that can be used for either highways or transit or both) under TEA-21. The program provides funds to urbanized areas that have not attained the ozone and carbon monoxide air quality standards established in the federal Clean Air Act or that have been designated as maintenance areas for air quality improvements.

Summary of Current Funding

- 9.18 Table 9.1 summarizes the current (FY2008) levels of funding received from each primary revenue source along with the split provided for operating and capital funding.

TABLE 9.1 SUMMARY OF CURRENT FUNDING SOURCES

Funding Source	Operating (\$m)	Capital (\$m)
Fares	29.9	
Other Operating Revenue	7.8	
Local and State Assistance	84.6	29.6
Federal Assistance	22.8	4.6
Total	\$145.1m	\$34.2m

The Cost of Building and Operating the TransitAction Plan

9.19 The TransitAction Plan includes approximately \$7 billion in capital investment and an eight-fold increase in annual service hours over what is provided today. With its current funding sources, RT could afford to invest approximately \$2.7 billion in capital projects and maintain today's service levels. To implement the entire TransitAction Plan will therefore require a new approach to funding transit in Sacramento.

Capital Expenditures

9.20 The TransitAction Plan includes expansion of the light rail network, new streetcar and European Street Tram networks, as well as a comprehensive Hi-Bus network. Table 9.2 summarizes the capital expenditures and the assumed timing for implementation. Note that dates for implementation of all projects will be linked to funding availability and therefore subject to change and review as the plan is implemented.

9.21 The table also shows the projects that Regional Transit would be responsible to fund and the projects that would have to be funded by other communities/partners. The capital cost of the elements that RT would fund is estimated at \$6.9 billion.

TABLE 9.2 CAPITAL COST OF THE TRANSITACTION PLAN

Project	Cost (millions)	Assumed Implementation
DNA LRT	\$792m	2011-2017
South Sacramento Extension	\$323m	2010-2013
Downtown European Street Tram	\$577m	2029-2030
Rancho Cordova Streetcar	\$433m	2022-2035
Vehicles - LRT, Streetcar, Bus	\$2,664m	Ongoing
Regional Rail rolling stock	\$392m	2027
Hi-Bus network infrastructure	\$549m	2014-2025
Ticketing	\$77m	2011-2013
Timetable, maps and information	\$11m	2015
Security improvements (cameras and extra police)	\$29m	2014-2021
Improvements to access to stations/stops	\$86m	2021
Additional maintenance and other facilities	\$575m	2011-2035
Other Infrastructure Programs	\$405m	Ongoing
Total (millions) - in today's \$	\$6,912m	

Service Level and Ridership

- 9.22 The TransitAction Plan includes an expanded network, more frequent services and longer service hours which by 2035 will result in nearly an eight-fold increase in the number of service hours provided - from 12,000 service hours in 2008 to 80,000 service hours by 2035.
- 9.23 As outlined in Chapter 5, while annual ridership is projected to increase by up to six times today's levels as a result of these service increases, the analysis shows that it increases at a lower rate than the service level. With RT services only recovering between 20 and 30% of their total costs through the farebox, any increases in service will create a gap in funding.
- 9.24 This further highlights the need for an integrated approach to transit service provision and expansion, with service provided first to areas with supportive transportation demand management measures and transit-oriented development policies in place.

Funding Gap

- 9.25 The estimated shortfall in funding for the TransitAction Plan is estimated at \$8.2 billion (in present value terms), or an average of approximately \$290 million per year¹. This shortfall is based on the following key assumptions:
- RT pays for the capital expenditures related to projects within its member jurisdiction service area (i.e. the City of Sacramento, Sacramento County and the City of Rancho Cordova) and federal funding for those projects has been included based on the anticipated share of funding;
 - Capital projects in other communities are assumed to be paid for by a local contribution from the community where the project is located and federal funding. The cost of those projects is not included in the funding short fall; and
 - Operating costs for all projects in the plan will be paid for by RT which in return would receive all fare revenues and local share of sales tax from the local communities.

Additional Sources of Funding

- 9.26 The vision for transit in Sacramento presented in this TransitAction Plan will see transit move away from a lifeline service to a lifestyle service that provides a real transportation choice. However, to deliver this vision additional funding sources will be needed. Based on experience across the US and from around the world, a number of alternative funding sources have been identified.
- 9.27 The long-term funding strategy has been built around the following three principles:
- **Everyone pays** - transit benefits everyone, directly or indirectly, and in determining where to seek new revenues consideration should be given to have every beneficiary pay;

¹ The shortfall was projected using Regional Transit's Financial Forecasting Model and is an annual average. The phasing of projects/service increases has a significant impact on the average annual shortfall.

- **Multiple revenue sources** - like any well diversified portfolio, a long-term funding strategy should minimize risk by having a multitude of sources where it receives revenues; and
- **Transportation demand management effect** - where given a choice, apply the revenue source in such a way to generate the maximum TDM effect (e.g. increasing parking costs can raise money for transit and encourage greater transit use).

9.28 A discussion on the revenue sources that could be used to fund the remaining gap is provided in the following sections.

Fares

9.29 RT currently collects an average of \$0.88 per passenger in fare revenues and it is assumed that this will increase slightly as fare increases are implemented every five years.

9.30 The impacts of these fares is that fare revenues currently make up approximately 20-25% of operating costs and by 2035 with the full TransitAction Plan in place (including integrating the land-use and TDM impacts), this is expected to increase to 30%.

9.31 In order to reduce the funding gap, additional fare revenue will be needed. This could be achieved through a combination of increased fares, lower operating expenses and/or seeking higher local contributions from communities where the cost recovery is below Regional Transit's target (set for 30%).

9.32 Increasing the average fare per passenger could be achieved through several strategies:

- *Distance traveled:* Implement a zone-system with multiple fares depending on distance traveled;
- *Time-of-day:* Higher fares in peak periods - morning and afternoon -, to reflect the higher cost of providing service in those time periods, and lower fares at other times and on weekends;
- *Quality of service:* It is recognized, and supported by research², that higher quality service not only can command a higher fare, but also generates higher ridership as passengers are more willing to use premier service, such as express bus and light rail, than a regular and slower bus; and
- *Premium fare:* A higher fare can be charged on faster, premium service, such as express or rapid bus and light rail services.

9.33 As an example, doubling the average fare would result in \$2.1 billion in additional revenues over the period, or approximately \$75 million per year (in today's dollars), on average, in revenues.

² *Valuing Transit Service Quality Improvements*, Todd Litman, Victoria Transport Policy Institute, 10 May 2007

Sales Tax

- 9.34 General sales tax is a popular revenue measure as it generates substantial revenues, however, the drawback of sales taxes is that revenues are sensitive to economic conditions and provide less revenue in years of low economic growth.
- 9.35 RT already receives revenues from a local ½% sales tax through Measure A which will be in existence until 2039. Of the new Measure A revenues, 38.5% will be dedicated to transit which raised approximately \$45 million in FY2008. The state also allocates ¼% of the state sales tax to counties for transit through the Local Transportation Fund.
- 9.36 Under current legislation a further ½% could be added to the local sales tax, however this would require a referendum and need a two-thirds majority to pass. As an example, a ¼% increase in sales tax in the Sacramento region would generate an estimated \$1.5 billion over the period, or an average of \$50 million annually (in today's dollars) in additional revenues.³

Road Pricing

- 9.37 Road pricing mechanisms include charges and fees imposed on motorists with the intent of shifting more of the total transportation cost onto the automobile. Depending on how the charge is structured it can affect behavior differently. However, the challenge of implementing any road pricing mechanism for funding transit is that most automobile drivers want revenues collected to be used towards improving roads or reducing congestion.
- 9.38 There are already however, a number of successful road pricing programs around the world and, in the context of a 30-year strategy, should not be discounted. Examples of road pricing tools include gas taxes, road tolls and taxes and levies on vehicles and parking.

Regional Gas Tax

- 9.39 Counties have the power to levy a fuel tax on a county-wide basis under the California Revenue and Taxation Code. There are no limits on the level of taxation but the County and Cities within the County must approve the tax and a proposition must be submitted to and approved by the County's voters. The funds may only be used for infrastructure capital projects, not for maintenance, operations or vehicle purchases.
- 9.40 Since gas taxes are already collected, an increase would be relatively easy and efficient to administer. One potential problem with levying a local gas tax is that some people would simply choose to buy gas in a neighboring county. However, in other jurisdictions with differential gas prices show that the difference in gas prices has to be significant for people to drive a longer distance for gas.
- 9.41 With the increased focus on climate change and air quality, many jurisdictions are beginning to implement carbon emission related charges in order to reduce automobile use. In most cases the carbon emission charge is a fee on fuel (similar to a gas tax) or a fixed fee per vehicle, but given the attention currently given to climate change, a carbon tax may be more easily accepted than a straight gas tax.

³ Based on the revenue projections of the existing TDA -LTF sales tax revenues.

- 9.42 As an example, a 5 cent per gallon gas tax of gasoline would raise approximately \$30 million per year in today's dollars.

Vehicle Levy

- 9.43 A vehicle levy is the pricing mechanism that would generate the most revenues. It would include levying a fixed fee on each vehicle in the region at the time of annual licensing. The fee could be variable based on size or fuel efficiency of the car.
- 9.44 As an example, given the large number of cars in Sacramento County, a charge of \$50 per vehicle would generate almost \$95 million per year (in today's dollars) in additional revenues, or \$2.7 billion over the period.

Congestion Pricing

- 9.45 Congestion pricing through tolls is a road pricing mechanism that can potentially have a large TDM effect. However, congestion charges are typically only implemented over relatively small geographic areas that can be easily cordoned off. The area also has to have significant congestion and transit has to be a real option to those drivers who choose not to drive. Without a solid transit option, the charge will be viewed as just another tax.
- 9.46 The potential revenues from congestion charges have not been estimated as it depends on where the congestion charge is implemented. It is expected that the revenues would be less than a vehicle levy due to high collections costs.

Parking

- 9.47 Parking fees can involve either implementing parking charges on current free parking or increasing existing parking rates. Parking rates are set by the City or County and can be applied to either just the government controlled spaces or can also include a surcharge on private parking spaces. Levying taxes or fees on non-commercial, private parking spaces for the purpose of using the revenues for transit would likely require State legislation to be enacted.
- 9.48 The average fee for parking an hour in downtown Sacramento is \$1.25 for on-street and \$3.00 for parkades. Sacramento currently raises almost \$12 million per year from on- and off-street parking. Assuming a 50% increase in parking rates with the revenues dedicated to transit, would generate \$5 to 6 million in additional revenues per year.

Property Based Charges

- 9.49 Property based charges consist of property taxes, development charges or access charges charged either to home owners or the developers who build them.

Property Taxes

- 9.50 Property taxes are a fairly common funding source in some jurisdictions and while further legal guidance may be needed, it is believed that RT has the right to levy property taxes for transit purposes as long as the cities and/or county approve such an initiative and the public supports the initiative through a ballot initiative.

- 9.51 The average residential property tax in Sacramento is 1.1%, or approximately \$3,000 per year.⁴ An increase in the average property tax by 0.04%, or \$100 per residence, would generate approximately \$95 million per year in additional revenues.

Development Charges

- 9.52 Development charges can fund new transit infrastructure or services made necessary by new development. Developers pay a one-time charge towards the funding of the capital cost of new infrastructure and/or to provide services.
- 9.53 In Sacramento, the New Measure A stipulates a \$1,000 development charge for every new single family unit and a charge for multi-family, commercial and retail development based on trip generation and 20% of these revenues will be dedicated to transit.

Access Fees

- 9.54 This is a charge that is levied on commercial and government-owned properties that benefit from transit. It differs from development charges as they are typically levied annually and would be applicable to all commercial properties within a designated distance of a transit station (e.g. half a mile). More research is required to determine the revenue potential of this revenue source, but it is not expected to be significant.

Summary

- 9.55 As shown in this Chapter, implementing the full TransitAction Plan will require a broad range of new funding measures to close the emerging funding gap. New funds will be particularly needed to pay for the ongoing operating costs associated with the large increases in service hours.
- 9.56 To achieve a long-term and sustainable funding strategy for the plan, it must be built around multiple revenues sources where all the beneficiaries of improved transit services have to pay a share of the cost. This will require a combination of increases to existing revenues as well as adopting new ways to fund transit.
- 9.57 Table 9.3 summarizes the revenue sources that are deemed suitable for RT to pursue as funding mechanisms for the TransitAction Plan. The table summarizes the fee or increase that is contemplated, the amount of annual revenues it would generate and a relative degree of difficulty on how hard it would be to implement the change.
- 9.58 While the precise amount and timing of each new funding source will need to be determined through further research and consultation with the RT Board, its stakeholders and the general public, Table 9.3 demonstrates that there are a range of funding options that RT could pursue that in combination could be used to implement the full TransitAction Plan.

⁴ Based on an average assessment of \$280,000

TABLE 9.3 POTENTIAL REVENUES FROM NEW REVENUE SOURCES

Revenue Source	Example of Charge / Increase	Annual \$m Generated	Ease of Implementation/ Administration
Fares	Double the average fare	\$75m	Within Regional Transit authority - increase existing charge
Sales Tax	Additional ½%	\$100m	Moderate/Hard - Process established (requires 2/3 public support) - increase existing charge
Regional Gas Tax	\$0.05 per gallon	\$30m	Moderate - increase existing charge, but need voter approval for new application of revenue
Vehicle Levy	\$50 on licensing fee per vehicle	\$60m	Difficult - increase existing charge, but likely need legislation for new application of revenue
Parking Charges	50% increase	\$5m	Difficult - increase existing charge, but likely need legislation for new application of revenue
Special Tax	\$100 per household	\$95m	Moderate - institute special tax, but need voter approval for new application of revenue
Rental Car Tax	5%	TBD	Moderate - increase existing charge
Hotel Tax	5%	TBD	Moderate - increase existing charge
Developer Charges & Access Fee	Project specific	TBD	Possible, but requires Partner support - increase existing charge on communities

