



*"Improving the Quality of Life
by Enhancing Mobility"*

University Transportation Center for Mobility

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A Guide to Transportation Funding Options: Phase 2

Final Report

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16. Abstract This project is a continuation of a project that provided a one-stop shop website, A Guide to Transportation Funding Options (http://utcm.tamu.edu/tfo), detailing transportation funding options and their applicability in an easy-to-use format. The first phase of this project compiled information on transportation funding options for highway funding. This subsequent phase provided similar information for other modes of transportation including transit, rail, aviation, and ports. The information is presented in a format that is user friendly and easily accessible via the Internet for anyone interested in project financing methods.					
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A Guide to Transportation Funding Options: Phase 2

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Executive Summary

Federal, state, and local governments continue to struggle to meet the demand for transportation systems that are necessary to move people and goods. Reluctance to increase taxes at all levels, combined with the declining purchasing power of revenues and increased costs for all modes of transportation, have prompted exploration of all funding options and opportunities. In an earlier phase of this project, researchers developed a website to serve as a resource tool to aid decision makers facing transportation funding questions (<http://utcm.tamu.edu/tfo/>). The website presented the various finance options available for the development of roadway systems across all levels of government.

This report documents the second phase of the project, which focused on providing financing information in a similar format for other modes including transit, passenger rail, airports, and ports and waterways.

The website consolidates information available from various sources and presents it in clear, non-technical language. The website provides a useful “one-stop shop” for relevant information. Using available data sources, such as recent reports from the Transportation Research Board’s various cooperative research programs, the website documents current forms of surface transportation finance and indicates where they are being used. The site also documents innovative financing techniques that are used in more limited capacities. The site provides links related to various techniques, examples of these techniques as they are currently practiced, sample legislation, specific programs, and commentary on these topics so as to provide additional information and insight.

Due to the constantly changing subject matter, the researchers recommend that this website continue to be developed and enhanced with additional information as it becomes available.

Introduction

As more and more governments at all levels struggle to finance upgrades and improvements to an aging transportation infrastructure, as well as fund the needed expansion of inadequate systems, there has been an increased interest in exploring non-traditional mechanisms for financing transportation in America. To investigate new opportunities it is useful to have an understanding of the financing systems in place today. Recently two national studies have been commissioned by Congress: the National Surface Transportation Infrastructure Financing Commission and the National Surface Transportation Policy and Revenue Commission. Both of these concluded that reform to the current system by which transportation-related revenues are generated and distributed is needed (1, 2). However, the enacting reform requires a firm understanding of the existing system, and while available information is rapidly expanding, much of this information requires a diligent and sometimes daunting undertaking to uncover and compile.

The original intent of this technology transfer project was to develop a user-friendly guidebook to transportation finance. The guidebook was intended to be a useful tool for decision makers by providing an easy-to-use reference regarding transportation financing options. What became readily apparent was that a seemingly straightforward task of assembling available information would require a much broader way of thinking. Moreover, the world of transportation finance and the mechanisms used to finance transportation projects are changing rapidly. Many different nomenclatures are used for similar types of financing agreements depending on location and usage.

The initial task of developing a comprehensive transportation financing website focused almost exclusively on highway development. The effort covered in this report was aimed at enhancing the existing funding options website to incorporate similar information on other modes of travel. These modes include:

- transit,
- rail (freight and passenger),
- aviation, and
- ports and waterways.

As before, researchers sought to ensure that the information was presented in a non-technical manner so as to be accessible for those not versed in the language of the transportation industry. Whenever possible, links to existing programs or examples of the funding and financing methods being discussed were presented.

Approach and Methodology

Material for this most recent effort is taken from publicly available, Internet-based resources. Federal administrative agencies provided a large portion of the information that would eventually populate the website. These agencies included:

- Federal Highway Administration,
- Federal Transit Administration,
- Federal Railroad Administration,
- Federal Aviation Administration, and
- Federal Maritime Administration.

The Transportation Research Board, with its mode-specific cooperative research programs, also provided a substantial amount of information in this effort.

Subsequent material for the finance website was organized in a manner similar to the existing material related to highway funding. Sections entitled *Funding Strategies* present information on various taxes, fees, and financing strategies employed at the federal, state, and local level for the provision of transportation services. Whenever possible, examples of these funding strategies were provided in a side bar with links to either agency websites or to studies dealing with the specific strategy.

Sections entitled *Programs* provide information on state and federal programs that provide funding for the modes being discussed. Whenever possible, researchers provided an overview of the programs and information pertaining to what agencies may apply for these funds and what types of projects are available for funding.

Transit

In developing the transit section of the funding website, researchers began with a discussion of the transit funding process at the federal level. Most of these data were taken from the Federal Transit Administration, which maintains a database of relevant transit funding programs and provides guidance to transit providers applying for grants (http://www.fta.dot.gov/grants_financing.html). Material for this section was also taken from the Federal Highway Administration's Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) website (<http://www.fhwa.dot.gov/safetealu/summary.htm>), which provides additional detail on how SAFETEA-LU obligates funding for transit services.

Researchers conducted a survey of common, nationwide practices in funding transit development for the material dealing with state and local funding strategies. Several common sources of revenue were identified, and when possible, examples were provided to allow interested parties to actually view how these strategies might be employed for transit development. Much of this information was obtained from a research report published by the University Transportation Center for Mobility™ (UTC™) entitled *Nationwide Examples of State and Local Funds for Mass Transit (3)*. The funding strategies discussed in this section included:

- general fund expenditures,
- vehicle registration fees,
- employer/payroll taxes,
- concessions,
- general sales taxes,
- lottery and/or casino revenues,
- vehicle leasing and rental fees,
- tollway revenues,
- cigarette taxes,
- parking fees and fines,
- property taxes,
- fare and fare-related income,
- contracts and/or purchase of services,
- lease revenues,
- advertising,
- concessions/rental income,
- realty transfers taxes/mortgage recording fees,

- corporate franchise taxes,
- hotel/motel taxes, and
- utility fees.

A growing trend in transportation infrastructure development is the reliance on innovative financing techniques, and out of a desire to ensure that the funding website reflects, to the greatest extent possible, emerging trends in transportation funding practices, researchers provided a discussion of these mechanisms as they relate to transit development. Much of this information was taken from a Transit Cooperative Research Program report entitled *Financing Capital Investment: A Primer for the Transit Practitioner (4)*. Alternative financing methods for transit development as presented in the transit section included:

- public private partnerships (PPPs),
- tax-increment financing districts, and
- transportation development districts.

Links to examples of these mechanisms as they are currently being used were also provided.

Aviation

The aviation portion of the funding options website begins with a brief description of common arrangements by which airports might be organized with examples provided in a side bar. Researchers worked to ensure that the examples provided reflected a mix of small, medium, and large hub airports. These data were gathered through a survey of aviation funding-related material including the Federal Aviation Administration and a report issued by the Airport Cooperative Research Program (ACRP) entitled *Innovative Finance and Alternative Sources of Revenues for Airports (5)*.

Funding strategies were presented in the subsequent section, beginning with a summary of federal aviation funding and financing practices. The majority of the information in this section was taken from the Federal Aviation Administration (FAA) and included:

- a discussion of FFA's various accounts and the programs they provide funding for,
- a discussion of current aviation excise tax structures, and
- a discussion of the various programs administered by FAA.

Next, state and local aviation funding practices were discussed. As in the previous section, much of the information was obtained from the Federal Aviation Administration and ACRP; however, examples of various funding strategies and institutional arrangements for local airports were obtained through state aviation program websites. This section also contains an in-depth discussion of revenue-generating approaches utilized by airports (non-governmental income) of all sizes. These include:

- terminal leases,
- parking-related revenues (premium parking services, parking operation enhancement fees, and off-airport parking fees),
- rental car revenues,
- terminal concessions,
- advertising programs,
- commercial development and land use fees, and
- passenger facility charges.

Bonding through general revenue bonds, general airport revenue bonds, passenger facility charge bonds, tenant special facility bonds, tax credit bonds, bond anticipation notes, and customer facility

charge bonds is also discussed, and examples of bonding measures are presented. Most of this information was obtained from the ACRP study of alternative financing sources.

Rail

The rail portion of the funding options website begins with an overview of federal rail funding programs. Much of this information is from the Federal Highway Administration's SAFETEA-LU website (<http://www.fhwa.dot.gov/safetealu/summary.htm>). In cases where guidance was offered on the types of projects that can seek these funds, additional information was supplied on program requirements. Researchers also utilized data from the Federal Railroad Administration (<http://www.fra.dot.gov/us/home>) in presenting this information.

This section also provides some basic information on rail projects currently receiving funding under the various programs discussed. The website presents information on innovative financing mechanisms available for rail providers, and again provides information on which programs may utilize these types of financing arrangements and which rail entities are currently utilizing these arrangements.

The state and local rail program section has a brief description of state rail funding practices and provides examples of how states and various local entities provide funding for rail development.

Ports and Waterways

The ports and waterways section provides a brief description of how ports are typically organized and provides examples of ports of varying sizes throughout the United States. The examples presented generally show how these ports are structured financially with links to operating budgets. A chart showing trends in U.S. port capital expenditures by financing method illustrates trends in financing of ports of all sizes. These data, and the preceding information related to port institutional structures, were obtained from the U.S. Maritime Administration (<http://www.marad.dot.gov/>).

This section also contains descriptions of federal port funding accounts such as the Harbor Maintenance Trust Fund and the Inland Waterways Trust Fund. The taxes and fees used to sustain these funds (merchandise processing fees, customs passenger inspection fees, custom vessel inspection fees, agricultural inspection fees, and immigration inspection fees) are also discussed.

In developing the state and local portion of the ports and waterways funding page, researchers had to rely on documents publicly available from established ports and port authorities since most of the published information on state and local funding for ports and waterways located in this effort was over a decade old, if not more. Researchers concluded, after attempting to verify the validity of these resources, that the information was too out of date and was not reliable since most of the programs discussed in these resources are no longer in existence. A description of the common fees and taxes levied for port and waterway development was provided as well as examples when they were available.

Findings and Recommendations

The website, accessible at <http://utcm.tamu.edu/tfo/>, is housed within the University Transportation Center for Mobility™ website.

UTCM has worked to leverage itself as a leader in transportation financing education through various efforts including the funding options website. It is recommended that the center continue this work by further enhancing the funding options website and structure it so as to act in a more dynamic and responsive nature. In other words, now that the website has been initially populated with basic

information on funding for major modes of transportation at the federal, state, and local level, it should now become a tool that is continually updated with new information.

It is necessary and beneficial for leaders and policy makers to have clear and concise information on choices that may be available to them with regard to transportation finance options. Subsequent work on the website should build upon the existing information by providing updates on a continual basis with a focus on developing trends in innovative financing. While the eventual fate of this legislation is still in limbo, development of a new federal surface transportation bill will likely occur throughout the upcoming 2010 federal legislative cycle. Early indications from members of the House Committee on Transportation and Infrastructure indicate that the next transportation funding bill will have a strong focus on performance measurement and will reform many aspects of transportation financing policy. As part of future transportation funding research efforts, researchers should document the progress in developing this next surface transportation bill and provide research and analysis to policy makers and the general public, through the funding options website, on the various issues and concepts being debated. In this sense, the website will serve as a bridge between SAFETEA-LU and the next surface transportation funding bill.

In addition to the data that are already on the website, researchers should work to provide more detailed information on federal transportation funding practices, including information on how much federal funding states receive and the processes that determine those amounts. Efforts should also be undertaken to provide additional detail on current trends in innovative financing with a greater scope of coverage since the current website merely provides examples of innovative financing practices.

Furthermore, it is recommended that, if the funding website is to be further developed, it incorporate more interactive aspects for the users of the site. For example, the development of a forum feature that would allow for discussion of various topics regarding transportation funding and financing would allow for debate to occur within the confines of the UTCM program itself. Electronic mailing lists could also be used that would allow users to remain updated on the topic as well as developments to the website itself.

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