

NORTHERN VIRGINIA TRANSIT FUNDING RESOURCE GUIDE

Revised September, 2003

ABSTRACT

The Northern Virginia Transportation Commission serves its six member jurisdictions by coordinating funding of public transit systems in a territory exceeding 1,000 square miles and 1.5 million people. The Washington metropolitan region ranks at least fourth worst in traffic congestion, and transit needs (operations, maintenance, expansion) are at least \$367 million a year in Northern Virginia through 2020. Existing financial resources fall far short of needs, even though these needs are essential. For example, transit capital is underfunded by at least \$25 million annually for the next two decades.

This resource guide describes the many sources of funds available to sponsors of transit projects at various levels of government and in the private sector. The table of contents can serve as a checklist of alternative components of financial plans. For many of the program funding sources, amounts of funds available are listed in the text, together with contacts (program administrators, web sites). The report is meant to provide citizens and project planners a seismic map for mining for transit capital project gold.

Several figures give detailed information about transit funding received by Northern Virginia from various sources and the potential yield from new revenue sources that have been proposed for this region.

To help visualize the complex programs being described, the concept of a pyramid is used, with federal funds at the base and revenues from projects and beneficiaries at the pinnacle. The funding agencies form rooms in the pyramid, and faucets and hoses guide the flow of funds to and from the rooms. Lessons are provided about how and where to tap into these flows.

Because of the variety of financial programs available, sponsors are counseled to design their proposed projects as flexibly as possible to permit access to a wider range of funding sources. As potential funding sources in a preliminary financial plan are identified, the project (and associated customer markets) can also be fine-tuned to match the required funding criteria.

This guide book lists almost 100 federal, state, regional, local and project-specific funding programs. Sources of hundreds of millions of dollars now being used for Northern Virginia projects and potentially available over the next several years are identified. But the descriptions of these sources emphasize that failure to appropriate sufficient funds for the authorized programs is a very common phenomenon.

Finally, of all the levels of government reviewed, arguably the commonwealth of Virginia displays the most serious underfunding of transit programs. Compared to neighboring states and to its own statutory objectives, Virginia needs to do more.

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INTRODUCTION

Transit Funding Crisis

Operating, maintaining and expanding Northern Virginia's transit systems present an enormous funding challenge. For Northern Virginia's share of WMATA's Metrorail and Metrobus, for the Virginia Railway Express's commuter rail system and for six other local bus systems, total subsidies (costs less farebox and other system revenues) for FY 2004 are projected to be \$289 million.

Paying for transit capital projects requires an active and flexible partnership between the various transit agencies, their customers and local government sponsors on the one hand and regional, state and federal funding agencies on the other. For FY 2003, the federal government has budgeted about \$7.2 billion nationwide for public transit (almost all for capital programs). Statewide in FY 2004 in Virginia, over \$123 million is being provided from state-funded programs to support transit. Northern Virginia's regional agencies and local governments budgeted over \$120 million of their funds for transit capital and operations, with transit passenger revenues providing another \$161 million in this region.

Looking to the future, the metropolitan Washington regional constrained long range plan produced by the Transportation Planning Board (TPB), which applies only revenue sources reasonably expected to be available, has not included sufficient funds for WMATA's known capital needs. WMATA's current unfunded priorities include \$275 million for infrastructure renewal, \$625 million for 120 new railcars and \$171 million for 185 new buses. Northern Virginia's Transportation Coordinating Council (TCC) identified a shortage of funds for needed transit capital projects of \$25 million annually through 2020. TCC has now been replaced by the Northern Virginia Transportation Authority, but, as explained below, a November, 2002 referendum was not successful that would have provided a half-cent sales tax increase to be leveraged by NVTA to fund transportation projects.

Accordingly, identifying sources of funding is crucial just to continue current transit systems in operation and perform needed maintenance and rehabilitation as transit ridership reaches record levels. To expand those successful transit systems to meet growing demand, relieve accelerating traffic congestion, continue to meet clean air targets, channel growth into sustainable patterns, test and implement new technologies and improve customer service (so that riders will choose transit over their personal automobiles) requires resources of an even greater magnitude.

At the national level, the Federal Highway Administration (FHWA) and Federal Transit Administration (FTA) reported to Congress on the Conditions and Performance of the Nation's Highways, Bridges and Transit in 2002. Congress was told that the average annual cost to improve the physical condition of transit assets and transit operational performance to reach targeted levels by 2020 is \$20.6 billion in 2000 dollars. Just maintaining (as opposed to improving) transit

assets and performance at 2000 levels would cost \$14.8 billion annually. As of 2000, only about \$9 billion was spent nationwide, or 60 percent less than the amount necessary to maintain 2000 performance levels.

Purpose of this Guide

This guide is designed for two purposes: 1) To indicate the level of effort currently undertaken by the various transit funding partners and to demonstrate the severe transit funding crisis that exists; and 2) To provide basic instruction in alternative components of financial plans for existing and proposed transit capital projects, with capsule descriptions of most of the programs that form the available financial building blocks. This is meant to provide citizens and project planners a seismic map for mining for transit capital project gold.

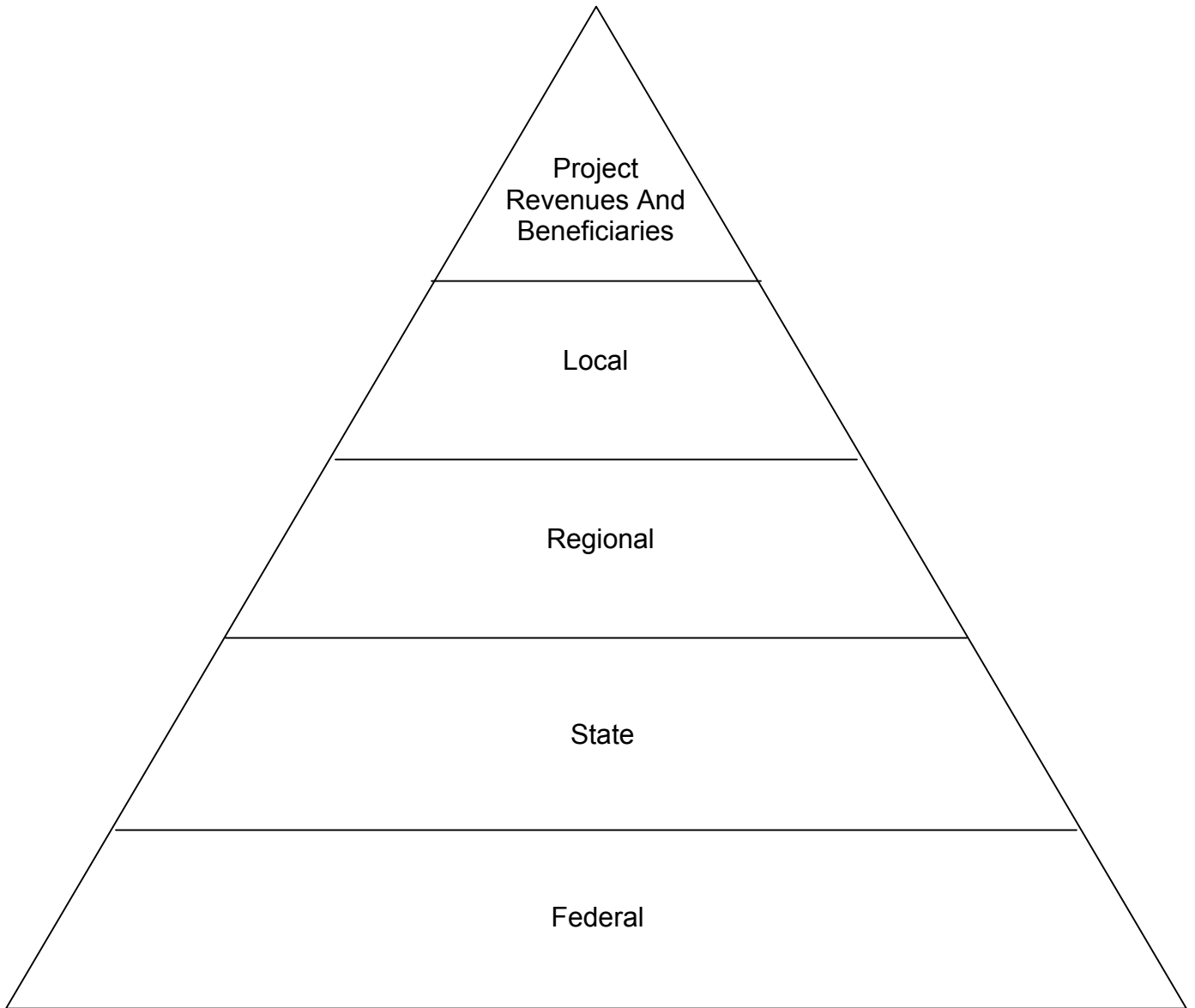
Competing for general purpose funding at all levels of government pits transit advocates against other interests, including education and health care. Consequently, it is essential to know the sources of funds that have already been set aside to support transit projects.

To use a simple analogy, transit funding programs can be viewed as rooms in a giant pyramid: layered by level of government, interspersed with a maze of conduits connecting to funding faucets, and regulated by an army of officials and policy-makers both inside and outside the pyramid. Ancient pyramids were built by societies with an advanced understanding of leverage. That same principle is needed to produce realistic and effective transit capital financial plans today.

The Transit Capital Funding Pyramid

As shown in **Figure 1**, picture a large pyramid built of money and other financial instruments. At the base are federal funds. The federal government is the largest component of the pyramid because it has access to the broadest array of taxing and borrowing powers. Now picture the federal portion of the pyramid as being divided into many different rooms filled with money. Some of the rooms have many partitions (program offices, regional administrations). Each federal executive branch agency with programs of benefit to transit will guide the flow of funds according to its own rules. The flow of funds can be imagined as a series of faucets, providing access to the rooms, with hoses connecting to other federal agencies as well as state, regional and local governments and the transit system itself. In many cases, federal agency officials control the flow of funds using rules and regulations based on legislative guidance enacted by Congress; but sometimes members of Congress, through earmarks, can alter the flows. And members of Congress can be responsive to their constituents – many of whom are likely to be transit system customers.

Figure 1



(without the hoses and faucets)
The Transit Project Funding Pyramid

Some rooms are large, with many faucets and a series of connecting hoses that are easy to see and have been in existence for a long time. An example is the Federal Transit Administration (FTA) which has been in existence since 1964 (formerly known as the Urban Mass Transit Administration). But other rooms are much smaller, may be new and have hidden faucets with hoses that seem to spiral through an almost impenetrable maze. Many social service and economic development programs of the US Department of Housing and Urban Development, the Department of Health and Human Services and the Department of Commerce may appear in this manner to transportation professionals more accustomed to the traditional federal programs of FTA. But partnerships with local agencies and interest groups who do business with these “non-transportation” federal agencies can reveal the hidden spigots.

Another complication is that some federal programs may offer loans, loan guarantees or full funding grant agreements. In the case of a guarantee, what is flowing through the imaginary hose is a federal promise to pay if needed, which makes it possible for the transit system to borrow money on the open market on much more favorable terms than would otherwise be the case. A full funding grant agreement provides a stronger likelihood that a stream of federal funds will continue and allows the transit system to borrow against that stream to accelerate projects. In the case of a loan, funds flow first to the transit system and at some future date flow back to the lending agency.

Even though a federal agency’s room in the pyramid is packed with money, there may be intense competition for the funds with many other transit systems. Consequently, those building a financial plan for a transit system’s capital project should consider a broad array of potential sources from all parts of the pyramid, and the timing and scope of the project should be as flexible as possible to qualify for a broad array of funding sources.

Continuing with the pyramid analogy, state sources are on the next level. Many of the state agency rooms are packed with money exclusively from state funds, but some also are connected to federal rooms with hoses bringing a steady flow of federal funds. Some of the hoses merely pass through the state rooms without discharging any funds; this represents federal programs that allocate funds to recipients but use state agencies primarily as conduits (such as the flexible funds of the Congestion Mitigation and Air Quality program known as CMAQ).

The next levels in the pyramid are regional and local government sources. In Virginia, the commonwealth reserves many tax sources for itself, thereby relegating these other governments to a narrower level of the pyramid. While some funds flow directly from the state sources to the transit systems, some pass through local or regional agencies, and in some cases these funds are redirected. For example, NVTC receives the proceeds (almost \$20 million annually) of a two percent motor fuels tax collected by the state and returned to NVTC, which in turn provides the funds to its member local governments according to where the taxes were paid (point of sale). NVTC also receives about \$70 million annually in state transit aid which it reallocates among its

members based on their relative transit subsidies paid. NVTC also receives from time to time the proceeds of bonds issued by the commonwealth using local sources of revenue to cover debt service. So tracking these funds in our model of a pyramid features many loops and reverse flows.

Making up the pinnacle of the pyramid are sources from private users and other beneficiaries of transit projects such as developers proffering transit improvements in exchange for approval of development plans, engineering firms offering design-build proposals including equity contributions, or special taxation districts taxing beneficiaries of transit improvements. These revenue streams from projects include transit riders and automobile users who help pay for transit-related improvements with fares or tolls.

Sitting on scaffolding along the sides of the pyramid are policy-makers and other decision-makers whose actions influence the flow of funds into and out of the program rooms by authorizing and appropriating money, levying taxes and redefining program rules. Swarming around the pyramid are hordes of transit systems and their supporters, all clamoring for access, with buckets to fill from whatever faucet or hose presents the greatest opportunity.

Figure 2 lists many of the factors to be considered in accessing transit assistance programs. These factors will be used to describe the many specific programs in the following sections.

Rules of Thumb

Observing the pyramid for the first time may give a daunting impression of a huge and extremely complex Tower of Babel. But thinking of the funding programs in this way does lead to some helpful rules of thumb:

- 1) Funding programs should be thought of as interconnected with a time dimension. Old programs die or become oversubscribed but others are born. If one program door is shut, be prepared to knock on a neighboring door as you plot a course through the rooms and connecting faucets and hoses that make up the pyramid.
- 2) Cultivate the decision-makers working in the rooms as well as sitting outside on the scaffolding, since they have different ways to influence the flow of funds to your project. For example, even if the executive branch administrators of funds report that a program is fully subscribed, a congressional or state legislative earmark can create an opportunity.

Figure 2

Factors to Consider in Accessing Transit Assistance

Original Source of Funds	Type of Grant	Legislative Influence	Intermediate Grantor
Federal	Formula	Ear-marked	Formula
State	Discretionary	Not earmarked	Discretionary
Regional	Loan	Multi-year authorization	Schedule
Local	Guarantee	Single-year appropriation	
Users/Others	One-time		
	Continuing		
	Schedule		

- 3) Since the same funding program may be accessible at different levels of government, the best way to gain access must be determined on a case-by-case basis. But project sponsors should at least be aware of the restrictions governing the funds they seek to obtain. For example, a private entity is generally not eligible to receive directly transit grants from the Federal Transit Administration. If funds are needed to support transit operations (bus driver salaries), don't seek funds restricted to capital or which don't allow wages as an eligible expense.
- 4) For defining the project scope, let the potential access to funds influence the precise nature of the project. Some tweaking of its definition and target markets may provide access to a level of the pyramid not otherwise available.
- 5) The Table of Contents of this guide book can be used as an initial checklist to sort through various funding possibilities, starting at the base of the pyramid with federal sources.

Sources of Additional Information

Throughout this guide there are references to compilations of information and specific program contacts. One promising source is an innovative transportation finance clearinghouse that is web based. The web site is www.innovativefinance.org. It includes a resource library and a new discussion forum among other helpful features.

FEDERAL FUNDING SOURCES

Sources of Federal Revenues

An excellent overview of funds available from the Transportation Efficiency Act for the 21st Century (TEA-21) authorizations is provided in [TEA-21 Funding Provisions –A Primer on Transit Funding Provisions of the Transportation Equity Act for the 21st Century and Related Laws](#), APTA (April 12, 1999). Among the helpful publications from federal funding agencies is [Financing Techniques for Public Transit](#) by the Federal Transit Administration (2000) which describes 45 innovative financing transactions valued at \$5.7 billion. Also, the [Catalogue of Federal Domestic Assistance](#) is a useful reference at www.cfda.gov.

Title 49, Chapter 53 of the U.S. [Code](#) contains the provisions of federal funding for public transit, while Title 23 covers the federal highway program. The Internal Revenue Code of 1986, Subtitle 1, describes the use of federal motor fuel taxes for highway and transit programs. The National Capital Transportation Act separately authorized funding for construction of WMATA's Metrorail system, but the last funds from this source were appropriated in FY 1999.

The Office of Management and Budget reports [see [Wall Street Journal](#) (5/27/03) at A-2] that sources of federal funds are derived as follows:

- Individual Income Taxes 48.8%
- Payroll 36.4%
- Corporate Income 10.4%
- Excise 3.4%
- Other 1.1%

With respect to funds specifically for transportation, a motor fuel tax on gasoline of 18.4 cents per gallon (and on diesel fuel of 24.4 cents) yields about 60 percent of the revenues going to the Federal Highway Trust Fund and includes 2.86 cents per gallon for the Mass Transit Account yielding about \$4.5 billion per year. Transit receives about \$6.8 billion in specific annual appropriations through the budget of the U.S. Department of Transportation, with the remainder from general funds.

Federal Transit Administration

This agency within U.S. DOT was created in 1964 (as the Urban Mass Transit Administration.) It has several regional offices headed by Administrators. For Virginia, the Region III FTA Office is in Philadelphia, and the Administrator is Susan Schruth (telephone (215) 656-7100; website www.fta.dot.gov). Most FTA grants are administered by this regional office, but FTA headquarters in Washington, D.C. also has discretionary grant authority (often to support current priorities such as innovations in technology). The current FTA Administrator is Jennifer L. Dorn (telephone (202) 366-4040; website www.fta.dot.gov). Within

the headquarters office an official is designated as a liaison to the Washington Metropolitan Area Transit Authority. That person is Brian A. Glenn at (202) 219-3562.

Among the many FTA web references, the following sites are of particular interest:

- Grantee's page: www.fta.dot.gov/grantees/index.html
- Regulations: www.fta.dot.gov/library/legal/dfregs.htm
- Master Agreement: www.fta.dot.gov/library/legal/agreements/2002/ma
- FTA circulars: www.fta.dot.gov/library/admin/checklist/circulars.htm
- National Transit Database: www.ntdprogram.com
- Circular 5200.1A Full Funding Grant Agreement: www.fta.dot.gov/library/policy/5200.1/intro

While FTA is the prime source of transit project funding, the Federal Transit Act as amended from time to time by Congress includes many requirements that must be met to qualify. These include regulations that provide labor protection (Section 13 (c)), require that production of equipment occur primarily in the U.S. (known as "Buy America"), that recipients certify that fair competition has occurred, civil rights have been protected, and the beneficiaries of the project are not inequitably concentrated by income level or other demographic characteristics ("environmental justice").

With the tight strings of FTA capital grants come offsetting opportunities to use some of the capital funds for items normally viewed as operating expenses. FTA circulars 9030.1.A, 9030.1C and 9040.1E describe capitalizing preventive maintenance; paying for rolling stock spare parts; vehicle overhauls; education and training; general grant administration; leasing of vehicles, facilities, tires, office equipment and computers; capital cost of contracting; and use of force account labor. So-called "soft match" or in-kind services can also help leverage federal funds.

Congressional Authorizations

Congress is in the practice of authorizing FTA's program funds every six years (e.g. the Intermodal Surface Transportation Efficiency Act for FY 1992-1997 or ISTEA; Transportation Efficiency Act for the 21st Century or TEA-21, enacted for FY 1998-2003). Each year Congress then enacts appropriations bills, which have been less than the authorized levels until FY 2003 (but equal to the "guaranteed" levels specified in the authorization bills).

The guaranteed funding levels for transit contained in TEA-21 have facilitated effective leveraging of scarce federal funds. Another provision of TEA-21 permits FTA commitments to new start fixed guideway projects to be spread over more years than the construction of the project. This practice, defined in full funding grant agreements, enables project sponsors to issue local revenue bonds to complete the project quickly and repay using the federal grant revenue

stream. The net effect is to enable the FTA funds to pay for more projects sooner than if such borrowing were not permitted.

FTA can also taper or front-load its matching ratios to facilitate earlier completion of projects. For example, the local share could be deferred until after all the federal share is spent. See FTA circular 9300.1.A.

BART in the San Francisco Bay area used the promise of \$750 million of FTA Section 5309 funds to facilitate borrowing for its \$1.5 billion extension to the airport. Sixteen years of federal funding averaging \$47 million annually will be provided rather than \$150 million annually if federal grants were restricted to the construction period and borrowing was not permitted.

With this leveraging of federal funds comes a greater deployment of non-federal matching funds. The federal share of transit capital projects nationwide has dropped to 47 percent as of 2000 from 58 percent in 1990. During that decade, federal funding grew by 60 percent but state and local funding grew by 240 percent. The federal share of all government subsidies of transit as of 2000 was 25 percent and of all transit costs was 17 percent. Other funding partners' shares of total nationwide transit costs were 18 percent for states, 33 percent for local governments and 32 percent for system revenues. Total transit operating and capital costs were about \$31 billion as of FY 2000. See The Benefits of TEA-21 Funding Guarantees by Jeffrey A. Parker for the American Public Transportation Association (December, 2002).

Congress has begun the process of reauthorizing TEA-21. The FY 2004 approved budget resolution does not substantially increase proposed appropriations levels for transit funding, but does contain language permitting these levels to rise if new revenue sources are made available (as may occur in the reauthorization of TEA-21). The American Public Transportation Association (APTA) is advocating an ambitious program of increased transit spending and revenue enhancements. For example, APTA is calling for guaranteed annual federal transit funding levels to grow by 12 percent annually, providing an increase to \$14.3 billion in FY 2009 versus \$7.2 billion in FY 2003.

APTA also wants the current ratio of 80 percent trust funds and 20 percent general funds to be maintained, as well as increasing and indexing federal gas taxes for inflation and crediting interest to the Highway Trust Fund and Mass Transit Account balances.

The Bush Administration has introduced its reauthorization proposal, known as SAFETEA. Although it would provide \$247 billion over six years, including \$45.7 billion for transit, only \$37.6 billion would be guaranteed (the non-general fund portion). There are several other features that are not supported by APTA and the transit industry. See www.dot.gov to review the entire proposal.

Congress is also considering reauthorization of Amtrak and some members of Congress favor doing so for six years (versus the current practice of four years) to coincide with the reauthorization cycles of highways and public

transit. The Bush Administration is proposing a new system of corridor assistance that would require states to fund operations and would provide grants for capital improvements to rail corridors at a 50 percent federal matching ratio. For some states this might result in more federal funds for intercity and commuter rail improvements (e.g. California) but for most it would appear to create an additional funding burden.

Major Formula and Discretionary Programs

As shown in **Figure 3**, FTA funds are authorized for a set of formula programs and several discretionary programs. Formula appropriations for FY 2003 total \$3.8 billion. The **urbanized area formula programs** (Section 5307) received a guaranteed TEA-21 authorization of \$3.3 billion for FY 2003, and a slightly higher appropriation of \$3.4 billion. Metropolitan Planning Organizations (MPO's) must approve the use of these funds for particular transit projects. **Non-urbanized area formula grants** (49 USC 5311) which are apportioned to states, were authorized funding levels of \$231 million for FY 2003, with an actual appropriation of \$239 million. **Elderly Individuals and Individuals with Disabilities** (49 USC 5310) received an authorization of \$87 million and an appropriation of over \$90 million for FY 2003, with apportionments going to states. The **Alaska Railroad** (\$4.8 million) and **Rural Transportation Accessibility** (\$7.0 million) are the other formula-based programs.

The discretionary programs (Section 5309) have authorized levels of 40 percent of these funds for fixed guideway new starts, 40 percent for fixed guideway modernization and 20 percent for buses and bus facilities. FY 2003 appropriations total \$3.1 billion.

New Freedom Initiative

President Bush has proposed in his reauthorization of TEA-21 (known as SAFETEA) a New Freedom Initiative as a take-down from the Formula Grants program. The New Freedom Initiative is intended to assist Americans with disabilities in seeking access to jobs and integration into the workforce. FTA is seeking authorization to provide \$145 million for the transportation component of the New Freedom Initiative through two programs. A competitive grants program would provide \$100 million for alternative transportation provided by community based organizations. A pilot project would provide \$45 million for innovative approaches to overcoming transportation barriers for persons with disabilities.

Figure 3

Major Federal Transit Administration Funding Programs

--FY 2003--

Total	\$ 7,178.97 million
Formula Total	3,764.37
UZA and Rural	3,662.58
Elderly / Disabled	90.06
Alaska Railroad	4.82
Rural Transp. Accessibility	6.90
Capital Investment	3,110.65
New Starts	1,251.21
Fixed-Guideway Modernization	1,206.51
Bus and Bus Facilities	652.93
Planning	72.46
Research	48.68
Job Access / Reverse Commute	104.32
University Centers	5.96
FTA Operations	72.53

Sec. 5307 Urbanized Area Formula Grants

FTA's transit formula allocation program uses National Transit Database (NTD) data from two years earlier to provide a share for each urbanized area with bus or rail systems. Different formulas are used for different parts of the formula program. For example, fixed-guideway (rail) systems get about 29 percent of the total and commuter rail systems receive a minimum apportionment of 0.75 percent. For FY 2004, the proposed budget includes a Performance Incentive Program proposed by the Bush Administration, which would allocate \$35 million in urban areas and \$3 million in rural areas based on increases in transit patronage. The program would not only reward increased ridership overall, but would also ensure that these performance bonuses do not jeopardize services to the elderly, persons with disabilities, or low-income individuals. A portion of the funds set aside for this program may be used to establish the data collection that is needed to measure performance. Funding for these performance incentives would not reduce basic formula program funding.

In the Washington metropolitan region, the Washington Metropolitan Area Transit Authority (WMATA) receives and uses almost the entire regional allocation with only the Virginia Railway Express (VRE), the Potomac and Rappahannock Transportation Commission (PRTC) and Maryland's commuter rail system (MARC) receiving smaller shares based on the additional revenue their formula factors contribute to the regional total. For FY 03, the DC/MD/VA apportionment was over \$117 million, which was \$3 million higher than FY 02.

For FY 2003, WMATA received over \$99 million of Section 5307 formula funds, including a 10 percent set-aside for enhancements (special uses); PRTC received \$1.4 million, VRE received \$7.2 million and Maryland's MTA received \$10.1 million.

This program requires 20% non-federal match and can be used in the Washington metropolitan region only for capital purposes. Capital is broadly defined to include preventive maintenance, non-fixed route paratransit service, leasing, safety and facilities incorporating community services such as day care and health. Eligible transit enhancements include historic preservation, landscaping, public art, pedestrian/bike access and access for persons with disabilities.

Urbanized areas under 200,000 population can use these formula funds for operations and capital. Within Virginia, \$7 million of total federal operating funds are allocated for FY 03 to urbanized areas of 200,000 or less population.

Sec. 5309 Bus and Bus Facilities Program

For FY 03, \$653 million was appropriated, but all was earmarked by Congress. This is one of three major FTA Section 5309 capital programs (with rail modernization and new starts). Arlington has received two FY 03 allocations, \$491,000 for bus transfer stations and \$786,000 for the Potomac Yard Transitway. PRTC has also received a \$2 million FY 03 allocation for buses.

FTA Clean Fuels Formula Program

This is a TEA-21 program (49 USC 5308) with up to \$100 million authorized nationwide each year (FY 98-03). For FY 2003, \$50 million was authorized and appropriated. Since the inception of TEA-21, the Appropriations Committee has made a regular practice of transferring the \$50 million from the formula program to the Section 5309 bus program and earmarking all available funds, without identifying which projects are clean fuels-related.

Section 5309 Fixed Guideway New Starts and Extensions

This \$1.3 billion capital program for new transit projects (49 USC 5309 (m) (1) (b)) has stringent rules designed in part to help restrain demand (which far exceeds annual appropriations). Applicants are encouraged to provide “overmatch” – more than the minimum 20 percent. FTA evaluates and ranks applicants each year. By negotiating and executing “full funding grant agreements,” applicants are assured of FTA’s intentions to continue to provide funds each year according to an approved budget, subject to sufficient appropriations by Congress. VRE has received a \$1.9 million New Starts allocation for FY 03, and the Dulles Corridor project has over \$74 million in unobligated New Starts allocations from FY 01 and FY 02.

Section 5309 Fixed Guideway Modernization

Rail modernization funds from FTA are provided from this section (49 USC 5309 (m) (1) (A)) based on a multi-tiered formula. WMATA and VRE receive allocations (\$62.5 million for FY 03 for WMATA). VRE became eligible for its tier after seven years of operation ((\$5.6 million for FY 03 and \$4.9 million for FY 02) while WMATA has been receiving funds under Tier 2 since FY 1992. NTD reports filed annually provide the basis for determining each rail system’s share. The program requires a 20% non-federal match and can be used for capital purposes only. For FY 2003 over \$1.2 billion was appropriated nationwide.

Job Access/Reverse Commute

This program (authorized in TEA-21) funds capital improvements and offers financial assistance for operations that can boost the productivity of a proposed project by expanding anticipated ridership in a predominantly counter-flow direction. Over the life of TEA-21, annual guaranteed FTA authorizations varied from \$50 to \$150 million, with FY 2003 appropriations of \$104 million.

Source 1: For FY 2003 FTA had \$150 million appropriated nationwide to subsidize transit service to help welfare recipients get to jobs and improve transit connections between urban areas and suburban job centers. Of that amount, \$45 million was transferred to the Capital Investment Program (New Starts) as stipulated in the FY 2003 DOT Appropriations Act. Funds from Sources 2 and 3 below can be used to match Source 1 funds. The Source 1 matching ratio is 50%. Funds can be used for new or expanded service only (no construction).

WMATA has received a \$2.8 million JARC grant for FY 2003 to support reverse-commute bus routes that run from the District of Columbia to employment centers in Tysons Corner and the Dulles Corridor.

Source 2: Temporary Assistance for Needy Families (TANF) block grants to states administered by the U.S. Department of Health and Human Services (HHS), total \$16.5 billion annually. See Section 401 of the Social Security Act. State maintenance of effort funds are also available.

Source 3: The Welfare to Work formula and competitive grant program administered by the U.S. Department of Labor (DOL) totals \$3 billion annually, including formula grants to states and competitive grants to localities. At least 85 percent of state funds are passed through to local Workforce Investment Boards. Additional funding sources can include social services block grants, community services block grants, Medicaid, and Workforce Investment Act.

Large transit systems apply directly to FTA, while smaller systems apply to the Virginia Department of Rail and Public Transportation (VDRPT) which packages applications in priority order and submits them to FTA. The statutory citations for this program are: TEA-21 (Section 3037), Pub. L 105-206, Pub. L 105-200, Title VIII of HR. 3424 Competitive Grants Notice Fed. Reg. 13209 (3/10/2000). Contacts: Elvin Tobin, WMATA (301) 562-4607; US DOT, Office of Research, Demonstration and Innovation (202) 366-4052, <http://www.fta.dot.gov/wtw/>.

Over-the-Road Bus Accessibility Program

This program (P.L. 105-178 Section 3038) authorizes FTA to distribute grants to operators of over-the-road buses to help finance the incremental capital and training costs of complying with the DOT over-the-road bus accessibility final rule of September 1998. Grantees are selected on a competitive basis based on need and commitment, and funds are provided at a 90 percent federal share.

For FY 2003, \$6.9 million was authorized and appropriated with \$5.2 million reserved for intercity fixed route operators. The remainder goes to local, charter, and other types of bus operators.

Additional FTA Programs

Among several other FTA programs are those that support planning and research. The Metropolitan Planning Program (49 USC 5303) had an FY 03 apportionment of just over \$60 million, which included \$400,000 from the previous year. A basic allocation of 80 percent of these funds is distributed to the states based on population, for subsequent distribution to urbanized areas. The remaining 20 percent is also distributed to the states, based on an FTA formula, for additional funding to larger urbanized areas. For FY 03, Virginia is receiving \$4.6 million in Section 5303 Metropolitan Planning funds.

The Statewide Planning and Research Program (49 USC 5313) had an FY 03 apportionment of \$12.5 million, which included \$110,000 from the previous year. These funds may be used for a variety of purposes such as planning, technical studies and assistance, demonstrations, management training, and cooperative research. A state can authorize a portion of these funds to be used to supplement metropolitan planning funds allocated to urban areas. Virginia is receiving \$290,000 in Section 5313 funds.

FTA administrative operations consume another \$73 million. Total authorizations for FTA in FY 2003 are \$7.2 billion.

Federal Highway Administration Programs

The current federal surface transportation authorizing legislation (TEA-21) provides that many of the programs described next can be transferred to transit uses. Since FY 1992 (first under ISTEA), nearly \$7.3 billion has been transferred. Over the life of TEA-21 through FY 2003, over \$121 billion of "highway" funds can potentially be used for transit (out of \$171 billion authorized), all according to FTA.

For transit projects, FHWA has less stringent regulations than FTA (e.g. no labor protection although Davis-Bacon wage rates (unionized) are required). Most "flexed" highway funds will be transferred, first by the request of the state FHWA office to FHWA headquarters in Washington, D.C., over to FTA. But for multi-modal facilities, it is preferable from the standpoint of administrative burden to try to use highway funds directly rather than as highway funds flexed to transit.

Current revenue sources for the Highway Trust Fund sustain annual appropriations of about \$30 billion, expected to rise to \$35 billion by FY 2009. Congress is considering several proposals for increasing this funding as it reauthorizes TEA-21. Among the suggestions are increasing the federal gasoline tax (currently 18.4 cents per gallon) and/or indexing it for inflation. Each increase of one cent would yield about \$1.5 billion annually. Also, eliminating the

ethanol tax exemption and transferring a 2.5 cents per gallon tax on ethanol to the trust fund could yield another \$5 billion annually.

Currently only about 69 percent of new revenues flowing into the Highway Trust Fund are spent in the following year according to Congressional Budget Office testimony to Congress in July, 2002. Consequently about a billion dollars accumulates each year so that the cash balance now exceeds \$13 billion and may reach \$19 billion by FY 2009. The American Road and Transportation Builders Association has proposed that these balances should be spent, perhaps combined with flexible gas tax rates, in order to increase the annual level of expenditures to \$60 billion by FY 2009. The American Association of State Highway and Transportation Officials has proposed the creation of a Federal Transportation Finance Corporation that would issue \$60 billion of bonds, with interest to be paid with federal tax credits and principal to be repaid with the interest earnings of an escrow fund of \$17 billion. This approach would increase the average program funding level by \$5 billion through FY 2009.

Proposals such as these are timely given the rapid improvements in fuel economy of the average U.S. automobile, since every one mile-per-gallon increase in average fuel efficiency of vehicles in the U.S. reduces Highway Trust Fund revenues by \$3.5 billion according to Innovation Briefs (Vol. 13, No. 5, Sept/Oct-2002).

National Highway System

TEA-21 allocations (23 USC 103 (b)) are made to each state based on miles of principal arterial, vehicle miles traveled (VMT), diesel fuel used and per capita lane miles, for projects on the NHS and Interstate System (includes connectors to other modes, public bus terminals, and Intelligent Transportation System (ITS) capital). For FY 03, \$5.4 billion has been apportioned nationally, with Virginia receiving \$124 million. Up to half of these funds can be transferred to categories such as CMAQ (see below) and up to 100% can be transferred using special procedures. For FY 03, TEA 21 authorizations for this program were \$5.06 billion.

Interstate System/Maintenance

Within NHS, IM funding (23 USC 119) is allocated based on lane miles of I-routes, VMT, and commercial vehicle contributions to the Highway Trust Fund. States without IM needs can transfer funds to NHS projects or CMAQ. For FY 03, the TEA-21 authorization was \$4.21 billion, with Virginia receiving \$126 million.

Federal Lands Highways Program

Funds public roads and transit facilities serving federal and Native American lands. The TEA-21 authorization for FY 03 was \$686 million.

Highway Bridge Replacement and Rehabilitation Program

Again, up to 50 percent can be flexed to CMAQ and other programs such as STP with potential transit uses. TEA-21 authorizations for FY 03 were \$3.61 billion.

TEA-21 Minimum Guarantee

TEA-21 (23 USC 105) provides that each state should receive at least 90.5 percent of the federal gas tax revenues it collects (up from 80 percent under ISTEA). Virginia uses 10 percent of its allocation to support transit (\$8.9 million for FY 2004). Beginning in FY 2000, Virginia's Commonwealth Transportation Board (CTB) used \$4 million of these funds (received as Surface Transportation Program funds) for VRE's rail access fees and has continued the practice through FY 2004. VRE's FY 2004 allocation has risen to \$5.6 million, which is in addition to the \$8.9 million from this source for other statewide transit projects.

The initial minimum guarantee funds are apportioned by FHWA to STP, and the remainder is split among several other programs, including CMAQ. For FY 03, \$2.8 billion has been apportioned nationally, with Virginia receiving \$78 million.

Surface Transportation Program (STP)

These funds (23 USC 133) are allocated to states based on lane miles, VMT and contributions to the Highway Trust Fund. Transit capital is eligible as well as ITS and public and private bus terminals. Ten percent goes for safety, 10 percent for enhancements and 50 percent to urbanized areas of greater than 200,000. For FY 03, \$6.4 billion has been apportioned nationally, with Virginia receiving \$168 million.

For FY 2004, Virginia is using six percent of its statewide STP funds for transit (\$10.9 million).

Regional Surface Transportation Program

These TEA-21 funds are allocated by Virginia's CTB by formula to non-attainment areas. The program requires a 20 percent non-federal match which is provided by the CTB. Actual and planned allocations including match average about \$25 million annually for Hampton Roads from FY '01 through '06; about \$11 million for Richmond and about \$25 million for Northern Virginia. If spent on transit, funds are "flexed" from FHWA to FTA and recipients must apply through FTA. In Northern Virginia, originally the Transportation Coordinating Council (TCC) and now the Northern Virginia Transportation Authority (NVTA) allocates these funds. This allocation then must be adopted by TPB in its Constrained Long Range Plan (CLRP) and Transportation Improvement Program (TIP) and by CTB in its State Transportation Improvement Program (STIP). According to the FY 2003 TIP, Northern Virginia has received \$118.6 million in Regional Surface Transportation Program funds since the start of the program.

The amount of CMAQ and RSTP funding estimated to be available for allocation by the Northern Virginia Transportation Authority for FY 2005 is \$18.1 million and \$35.6 million, respectively, including carryover funds from previous years. NVTA is expected to approve the allocations in December, 2003 for subsequent approval by TPB and CTB.

STP Enhancements

At least 10 percent of each state's STP funds must be set aside for enhancements. Other federal funds can be used as match. Enhancements can be stand-alone or added to existing projects. Intermodality must be included in some way. The enhancement should increase the value of a project or improve its aesthetics with a "quality of life" benefit. It should not be common practice. There are 11 categories, ranging from bike and pedestrian facilities through scenic or historic easements, landscaping, rehabilitation of historic facilities and preservation of abandoned railroad corridors. For FY 03, the minimum funding for STP enhancements in Virginia amounts to \$16.8 million.

Congestion Mitigation and Air Quality

This program (23 USC 149) is described in more detail below under state allocated funds. FHWA allocates these funds by formula through states to regions for projects in air quality non-attainment and maintenance areas that will reduce transportation-related emissions. Funds can be used for transit operating expenses for up to three years. For FY 03, TEA-21 authorizations are \$1.43 billion nationwide, with Virginia receiving \$33 million.

STP Safety Program

At least 10 percent of each state's STP funds must be set aside for safety, including rail grade crossing, bikes and hazard elimination at public transit facilities. For FY 03, this amounts to a minimum of \$16.8 million in Virginia.

Seat Belt Incentive Grants

States with savings on medical costs based on seat belt use are eligible for grants toward any Title 23 project (which can be flexed to transit). For FY 2001, \$47 million was apportioned nationally. Virginia was ineligible to receive funds.

Incentive Grants for Alcohol Programs

States with active driving under the influence (DUI) laws are eligible for incentive grants for any eligible project under Title 23 of the U.S. Code. For FY 2001, approximately \$77 million was apportioned nationally, with Virginia receiving \$2.9 million.

Transportation and Community and System Preservation (TCSP)

This is a program for planning and implementation of ideas and projects to promote efficiency, land use/transportation interactions and reduce the need for building more highways. Localities, transit agencies, metropolitan planning organizations (MPO's) and states apply to the FHWA state office which submits them to FHWA headquarters for award.

TEA-21 authorized TCSP funding in the amount of \$20 million in FY 1999 and \$25 million per year for FYs 2000 through 2003. However, actual TCSP Program funding levels can vary based on Congress's annual appropriations. For FY 2002, \$25 million was appropriated. Of that, \$2.4 million was spent on projects in Virginia, including \$500,000 for the Backlick Park and Ride facility in Fairfax County.

Value Pricing

Section 1216 (a) of TEA-21 provided a contract authority of \$51 million for demonstrations of pricing. This replaced ISTEAs Congestion Pricing Pilot program. Fifteen state and local projects are being considered. For FY 03, \$11 million has been authorized. Virginia DOT received funding for a feasibility study of value pricing in Northern Virginia.

Any state, local government or other public authority is eligible to apply; coordination is required with the local Metropolitan Planning Organization and state DOT. Advance consultation with the FHWA Value Pricing Team is also recommended. More details are available in a Federal Register notice of October 5, 1998 (Vol. 63, No. 192 at 53487-53491).

For additional information see
www.umn.edu/centers/slp/conpric/conpric.htm.

Demonstration, Priority and Special Interest Projects

The Highway Title of TEA-21 contains 1,850 earmarks for specific projects costing \$9.4 billion over six years. Additional earmarks appear each year in appropriations bills.

511 ITS Support Program

FHWA has published a request for applications from public agencies for conversion of existing traveler information telephone numbers to a common 511 national access number. The Federal Communications Commission (FCC) has assigned 511 for that purpose. The program will last three years and contain up to \$5 million. The target individual grant will be \$50,000, with a 20 percent cash or in-kind non-federal match required. Applications require information on regional coordination, a technical plan and a financial plan. Statutory reference:

Fed. Reg. Volume 65 No. 154 (August 9, 2000) @ 48797-99 Sec. 50001 (a) (5).
Contact: www.its.dot.gov/511/511.html.

Intelligent Transportation System Deployment

There are two components of the ITS Deployment Program, namely the ITS Integration Program and the Commercial Vehicle Intelligent Transportation Infrastructure Deployment Program. Section 5208 and 5209 of TEA-21 provided \$679 million of contract authority for ITS development over six years with FY 03 authorizations of \$232 million.

For FY 2002, Congress earmarked \$1.6 million for the Washington D.C. metropolitan region. Congress has typically earmarked many of these funds but for FY 03, FHWA requested proposals for its Joint Deployment Office for projects enhancing transportation security. A total of \$85 million was offered, with awards to a single metropolitan area limited to \$15 million at a program share not to exceed 50 percent and a total federal share of 80 percent.

A related program provides \$125,000 to each state to incorporate ITS facilities into AMBER (America's Missing: Broadcast Emergency Response) alert programs, including variable message signs and automated communications between emergency responders and transportation agencies.

For the ITS Integration component of the ITS Deployment Program: Ms. Toni Wilbur, FHWA Office of Travel Management, HOTM, (202) 366-2199; or Mr. Ron Boenau, FTA Office of Mobility Innovation, TRI-11, (202) 366-0195. For the Commercial Vehicle ITS Infrastructure Deployment component of the ITS Deployment Program: Mr. Steve Crane, FHWA Office of Motor Carrier and Highway Safety, HMTE, (202) 366-0950. For legal issues: Mr. Wilbert Baccus, HCC-32, FHWA Office of the Chief Counsel (202) 366-0780; or Linda Sorkin, TCC-24, FTA Office of the Chief Counsel, (202) 366-1936.

ITS Peer to Peer Program

Jointly administered with FTA, 120 ITS professionals are available for free technical consulting on all aspects of ITS for any public organization/agency.

Contact: Michael Baker, Jr. Inc.
801 Cromwell Park Dr. Suite 110
Glen Burnie, MD 21061
Phone: 1-888-700-7337
Fax: 1-410-424-2300
E-mail: p2p@fhwa.dot.gov

Transportation Infrastructure Finance and Innovation Act (TIFIA)

Created by Section 1501-1504 of TEA-21 (Pub.L.105-178) public and private sponsors of highway, transit and other surface transportation projects can receive secured direct loans, lines of credit or loan guarantees. Up to a third of the project cost can be provided. For FY 2000, \$81 million was authorized to provide \$1.7 billion of credit enhancements for projects with total costs of \$6.5 billion. For FY 2002 there was \$140 million of budget authority including the unused authority from FY 2001, which provided \$2.4 billion of federal credit. Credit totaling \$2.6 billion is available for FY 2003.

Applications are selected competitively using eight selection criteria, such as economic benefits, leveraging private capital and promoting new technology. Projects must be at least \$100 million (or \$30 million for ITS) and have user charges or dedicated revenues. Among the projects selected to date is a \$600 million loan guarantee for WMATA for FY 2003. WMATA anticipates savings of \$15 to \$20 million compared to commercial credit. Payback is required by FY 2009.

After creation of the program there was an extended period of uncertainty pending completion of rules that were eventually published on July 19, 2000 in the Federal Register #44941. Further information is available from FHWA's Paul Marx at 202/366-1734 or on the website at <http://tifia.fhwa.dot.gov>. A new joint program office has been created within FHWA. Contact Mark Sullivan at (202) 366-5785.

State Infrastructure Banks

Four states (CA, FL, MO and RI) are currently designated for a pilot federal program in which they have capitalized banks with federal-aid highway funds from FY 1998-03 to provide revolving credit for transportation projects. They can finance projects using loans, guarantees, interest-rate buy-downs, or other techniques. This program was established by Section 1511 of TEA-21. Beginning in 1995 there were 34 state infrastructure banks authorized (including Virginia), but these can't use TEA-21 funds for capitalization.

Ohio and Florida now have active direct loan State Infrastructure Banks (SIB's). Although nine states have authority to leverage their SIB's with bonds, only South Carolina and Minnesota have done so (according to Public Financial Management as of December 29, 2002). Projects funded by SIB's must adhere to federal labor and environmental requirements.

Apparently the South Carolina SIB is the most active, having been capitalized in 1997 with \$65 million and is funded with shares of the state's gas tax (one percent) and truck registration fees. So far it has approved loans and grants of \$2.5 billion and uses GARVEE bonds (see next section).

GARVEES/FRANS

These grant anticipation revenue vehicles/federal revenue anticipation notes were created by Section 122 of Title 23 in the 1995 National Highway Designation Act and allow reimbursement of up to 80 percent of debt service using federal aid. For GARVEES issued for a short term, the primary risk to lenders is the failure of Congress to appropriate funds authorized in TEA-21. For longer term GARVEES, the additional risk exists that Congress will not reauthorize the federal aid program funding debt service. Lenders will require evidence of greater coverage through secondary revenue sources.

These federal grant anticipation notes have been issued in several states (OH, MA, NJ, NM and VA) with several others exploring the concept. Governor Gilmore made GARVEES a centerpiece of his Virginia Transportation Act of 2000, with as much as \$590 million authorized. A possible shortcoming, from the point of view of project beneficiaries, is that Virginia's policy requires districts receiving these funds to repay them from future allocations. Since VTA 2000 was sold as a source of "new" revenue, this realization has not been popular with local transportation officials.

Section 129 Loans

Section 129 loans (created by Section 1012 of ISTEA) also provide for the use of federal aid to repay loans.

Federal Railroad Administration

This agency within USDOT has fewer grant and loan programs than does FTA, but its focus on safety and promotion of high speed rail does offer some transit-related funding opportunities. The Region 2 Administrator is David Myers (telephone 610-521-8200, website www.fra.dot.gov)

Next Generation High Speed Rail Development

This program continues the Swift Rail Development Act of 1994 with Section 7201 of TEA-21 to build incrementally high-speed rail corridors. The program funds rail research, development and technology to foster demonstrations of high-speed service. FRA will pay up to 50 percent of planning and 100 percent of technology improvements. Grantees can include private firms and right-of-way costs are eligible. The FY 2000 authorization was \$35 million but only \$27.2 million was appropriated in FY 2000. The appropriations bill directed funding to train control, non-electric locomotives, grade crossings and track/structures, with several earmarks. For FY 2001, \$35 million is authorized. No funding is authorized for FY 2002 or beyond. Contact Bob McCown at (202) 632-3854, website <http://www.fhwa.dot.gov/tea21/factsheets/r-hghspd.htm>.

High Speed Rail Corridor Assistance

This program funds capital improvements in designated corridors, including grade crossings. It was created by Section 1103 of TEA-21. Section 1103 (c) provides \$5.25 million for grade crossing improvements, with another \$15 million of general funds authorized each year. (This additional amount has not been appropriated). All of the FY 2000 appropriations were earmarked by Congress. For FY 2002, 10 states received hazard elimination funding for five high-speed corridors, including Virginia (\$250,000). Up to 100 percent federal funding is available for engineering and construction.

First corridors are designated to be eligible and then funding is provided in response to state applications. Corridor operations must exceed 90 miles per hour. Among the eight designated corridors is the Southeast (Washington D.C.–Richmond-Newport News-Raleigh-Greensboro-Charlotte).

Contact John Cikota at (202) 493-6364 or Gareth Rosenau at (202) 493-6054.

Maglev

Section 1218 of TEA-21 provided \$60 million of contract authority plus \$950 million of Highway Trust Fund authorizations for competitively awarded Maglev demonstrations. Project grants are for pre-construction planning to states (or agencies designated by states) for deployment of systems capable of safe operation at speeds exceeding 240 miles per hour. Projects in Maryland and Pennsylvania were selected for continued planning in 2001. The environmental impact statements, investment grade revenue estimates, financial plans, and detailed partnering agreements being developed by the two selected projects will be used in making the Department's recommendation, in 2003, on whether to select one of the projects for design and construction. Contact: Neil Moyer, FRA (202/493-6365).

Railroad Rehabilitation and Improvement Financing Program

Created by Section 7203 of TEA-21, it authorized \$3.5 billion for direct loans and loan guarantees to state and local governments, government-sponsored authorities and corporations, railroads and related joint ventures. Of the \$3.5 billion, \$1 billion must go for non-Class I railroads. It was enacted to assist grantees to acquire, improve, rehabilitate, develop or establish new passenger and commuter railroads, intermodal transfer and rail freight facilities. It requires analysis of present and future demand, demonstrated benefits, safety enhancements and maintenance of new or improved equipment, as well as environmental analysis and third-party financial evaluation. Terms of the loans are up to 25 years, with no minimum or maximum size.

The RRIF program is unique among federal transportation funding programs. One of the most interesting features is the payment of a Credit Risk Premium in lieu of an appropriation equivalent to the Federal Government's

estimated cost of making the direct loan or loan guarantee. The Credit Risk Premium may be paid by the borrower or any non-federal infrastructure partners that wish to contribute.

Despite the significant size and scope of the program, no loans have been approved for passenger rail operators yet due to issues affecting the promulgation of detailed administrative procedures.

Only five loans have been approved for regional railroads. However, administrators have identified \$600 million of eligible projects with potential applicants and are working to simplify and shorten the loan approval process. Contact Jo Ann McGowan at (202) 493-6390.

Light Density Rail Line Pilot

This is a pilot program for light rail projects with a report due by March, 2003. Section 7202 of TEA-21 authorized \$105 million of general funds.

Operation Lifesaver

This program promotes rail/highway grade crossing safety with funding from states as well as FRA. Its office is in Alexandria, VA. Section 1103 (c) of TEA-21 authorizes \$500,000 per year of federal funds.

Research and Special Programs Administration

University Transportation Centers

For FY 2003, this administration within USDOT has awarded 13 grants totaling \$14.7 million for advanced research at University Transportation Centers. They must be matched dollar for dollar by the recipients. In Northern Virginia, George Mason University received \$1.8 million for its National Intelligent Transportation Systems Implementation Research Center. See utc.dot.gov.

Sources Other Than U.S. DOT

As described below, many federal agencies have grant and loan programs that include transportation facilities and services as eligible components. In some cases the programs are actually designed to help achieve mutual agency goals (e.g. ISTEA and TEA-21 transportation funding programs are designed to help achieve clean air mandates of the Environmental Protection Agency). Another example is the Job Access and Reverse Commute initiatives of U.S. DOT and the U.S. Department of Health and Human Services in which HHS funds can be used to match DOT funds to support new reverse commute and other transit initiatives to improve access to jobs. This example was described in detail above. And the new Department of Homeland Security has a mission and funding to assist transportation agencies.

Even if the programs described below cannot be used to help fund a particular transit capital improvement, the constituents that do use such funds can be approached to join local coalitions that can boost community support for transit in general and a specific transit facility in particular.

Federal funds provided to states for general purposes can also allow states to shift more funds to transit. With passage of a tax reduction measure in May, 2003 came \$842 million of federal aid to Virginia, Maryland and the District of Columbia. Virginia is receiving about \$415 million. The U.S. total is \$20 billion. Virginia's share comprises about two percent of the commonwealth's annual budget of \$25 billion.

Compilations of Information

Several sources of information are available that describe these less traditional federal sources of funding for transit projects. These include:

- Community Transportation Resource Guide, Community Transportation Association of America (2000), available on the web at www.ctaa.org/ct/resource/funding_resources.shstml.
- Building Mobility Partnerships – Opportunities for Federal Funding, Community Transportation Association for U.S. Department of Health and Human Services (2000).
- Planning Guidelines for Coordinated State and Local Specialized Transportation Services, Coordinating Council on Access and Mobility/U.S. Department of Health and Human Services/USDOT (Draft: July 26, 2000).
- Catalog of Federal Domestic Assistance (Updated twice each year) at www.cfda.gov.

In its Guidelines for Coordinated State and Local Specialized Transportation Services released on August 1, 2000, the Federal Coordinating Council on Access and Mobility (which is composed of representatives of USDOT and the U.S. Department of Health and Human Services) describes 11 DOT and 12 HHS programs worth \$10 billion in funding to help meet transportation needs. Details and contact information can be found at the Coordinating Council website at www.fta.dot.gov/CCAM.

Testimony by researchers from the General Accounting Office to a congressional committee on May 1, 2003, revealed an impressive list of 62 federal programs providing transportation assistance to persons with disabilities, the elderly and low income individuals. Among the programs are 23 of the U.S. Department of Health and Human Services, 15 of the U.S. Department of Labor, eight of the U.S. Department of Education and four of the U.S. Department of Transportation. Only 28 of the programs provided information on spending,

totaling \$2.4 billion, as of FY 2001. See [Transit Access Report](#) (April 25, 2003) at 3.

Department of Agriculture

Several rural development programs include public works as eligible projects. These include grants, loans and guarantees, including the Rural Community Advancement Program (RCAP) funded at over \$790 million for FY 2003. See www.rurdev.usda.gov.

Department of Commerce

The Economic Development Administration (EDA) had FY 2003 funding of \$348 million for grants, including transportation facilities, in economically distressed areas. See www.doc.gov/eda.

Department of Defense

A program of the Office of Economic Adjustment covers base realignment and closure assistance, including transportation. Total FY 2002 funding was almost \$600 million. See emissary.acq.osd.mil/oea/home.nsf for a listing of all military bases.

Department of Energy

The Clean Cities Research Demonstration and Development Program (commonly known as the “Clean Cities” program) is funded at \$11 million as of FY 2003 for grants to pursue applied research involving energy efficiency. Transportation is one of seven priority areas. Only state energy and research organizations are eligible.

The department’s Oil Overcharge Settlement Program provided settlement funds to the states. NVTC used funds from this program to help pursue the use of hybrid-electric buses. No match is required. USDOE also has grants awarded competitively to states for special projects, including alternative fuel vehicles.

U.S. DOE/Office of Energy Efficiency and Renewable Energy has invited states to apply for \$18.5 million of FY 2002 assistance in State Energy Program Special Projects. Categories include alternative fuels and power technologies. State energy offices must prepare the applications to meet DOE criteria. Some cost-sharing by sponsors is required (including in-kind).

Department of Health and Human Services

Many programs provide funding for transportation services, including Temporary Assistance for Needy Families (TANF) funded at \$16.5 billion in FY 2002 and distributed to states by formula; Head Start (\$6.5 billion); and Community Services Block Grants (\$738.8 million).

Social Services Block Grants (\$1.7 billion) and Senior's Community Service Employment Grants (\$445 million) also provide grants that can be used for transportation facilities. See www.acf.dhhs.gov/programs.

Department of Homeland Security

Emergency supplemental appropriations legislation (Conference Report 108-76) became effective in April, 2003 and includes funding for grants to state and local governments for terrorism prevention and other security measures. The department's Office for Domestic Preparedness (ODP) is administering most of the funds. The state agencies receiving the funds are shown at www.ojp.usdoj.gov/odp/welcome.html. The phone number for ODP is: 800-368-6498. In Virginia the state Office for Emergency Preparedness is the contact agency.

The new law provides \$2.2 billion under four categories:

- \$1.3 billion for grants pursuant to Section 1014 of the USA Patriot Act (Pub.L. 107-56) for preparedness, equipment and training. States must transfer no less than 80 percent of the grants to local governments;
- \$30 million for technical assistance to states;
- \$200 million for formula grants to protect critical infrastructure; and
- \$700 million for discretionary grants for high-threat areas.

None of the funds are for construction or renovation of facilities and the \$200 and \$700 million programs can be used for operations. The top 20 transit systems measured by ridership are receiving \$65 million. See www.ojp.usdoj.gov/fundopps.htm.

Department of Housing and Urban Development

Transportation for persons with disabilities and elderly persons can be funded from grant programs in the Office of Housing. The Office of Community Planning and Development manages \$4.7 billion of Community Development Block Grants, most of which are allocated by formula to cities, states and urban counties. For FY 03, Northern Virginia is receiving over \$13 million in CDBG funds. Section 108 loan guarantees are also available. See www.hud.gov/cpd/cdbg.html.

HUD programs for Urban Empowerment Zones and Enterprise Communities (FY 2002 funding of \$45 million, sharply down from FY 01 funding amount of \$185 million) have also been used for transportation facilities in distressed areas. Such a designation also provides preference to receive grants from other federal grant programs. See www.hud.gov/cpd/ezec/ezecelist.html.

Department of Justice

Weed and Seed programs (\$59 million as of FY 2003) seek to combat violent crime via grants that can include transportation facilities. Contact Stephen Rickman (202) 616-1159 and www.ojp.usdoj.gov/eaws.html.

Settlement actions with various industries can generate sources of transit project funding, including oil overcharges (administered by the U.S. Department of Energy) and more recently the pending settlements with the tobacco industry that will accrue to states and can potentially be used for transit at state discretion. In Virginia, for example, such tobacco settlement funds were proposed for use for transit projects after being “securitized” (a future stream of benefits sold for a current lump sum). The Virginia General Assembly did not enact the Governor’s proposal, however.

Department of Labor

In addition to the Welfare to Work formula and competitive grant programs mentioned above, DOL has labor-management cooperation grants to improve labor relations at unionized worksites. Contact: Peter Regner, Federal Mediation and Conciliation Service (202/606-8181).

The Community Transportation Association of America is providing demonstration funding to communities for testing transportation strategies in support of local initiatives at DOL “One-Stop Centers” and other job development centers. Up to \$50,000 of DOL funds are available for each project with a 100 percent federal share. Funds can be used for planning, development, training and technical assistance but cannot be used for transit operations or capital. Contact: www.ctaa.org/ntrc/atj/joblinks/doldemas_round2.asp.

Environmental Protection Agency

Environmental Protection State and Tribal Assistance Grants, with FY 2003 funding of \$2.2 million, can be used to improve transportation facilities. Only states or tribal agencies are eligible but are encouraged to form partnerships. See www.epa.gov and review the [STAG home page](#) for details. Other grants for air pollution control provide up to 60 percent of project costs for prevention and control of air pollution.

EPA’s Heavy Duty Diesel Engine Voluntary Retrofit Program provides \$50,000-\$100,000 grants for diesel exhaust enhancements. Additional funds may be added in subsequent years. WMATA received a FY 2001 grant from this program. A related program uses settlement funds from Cummins Engine as

part of an EPA consent decree which WMATA used to acquire special filters to reduce emissions from its diesel-powered bus fleet. See the [Voluntary Diesel Retrofit Home Page](#) at www.epa.gov for details.

EPA's Environmental Justice small grants program has an annual February deadline for applications from groups and governments. For FY 2001, \$1.3 million was available and 90 awards were made with a ceiling of \$20,000 at a 100 percent federal share. Among the categories of awards are multi-media pollution and research and innovative technologies for pollution prevention. See: <http://es.epa.gov/oeca/oejlglinkl.html>.

A new program, known as the Environmental Justice Collaborative Problem-Solving Grant Program, is providing 15 grants of \$100,000 each to tax-exempt, private non-profit community based groups with the application deadline of September 30, 2003. The purpose is to encourage the groups to apply the collaborative model of environmental justice to environmental or health issues. See www.epa.gov/compliance/recent/ej.html.

EPA and FHWA jointly sponsor an award program: "Smart Moves: Transportation Strategies for Smart Growth." Eligible entrants are state and local DOT's, MPO's and transit agencies. There are three categories: 1) Regulating Framework; 2) Capital Projects; and 3) Service Enhancement. See: www.transportation.org/aashto/news.nsf/allpages/SmartGrowth.

Of greatest importance is the link between EPA's definition and enforcement of federal air quality standards and the transportation funding in ISTEA and TEA-21 that is designed to provide regions with poor air quality a financial means with which to comply with the standards. On the other hand, if regions do not meet their clean air targets, they risk a loss of all federal transportation funding (as occurred in Atlanta).

Federal Emergency Management Agency

FEMA's public assistance grants (\$2.9 billion in FY 2003) can replace damaged transit vehicles or facilities.

STATE FUNDING SOURCES

Where State Revenues Come From

Nationwide, almost half of total state revenues (as of 1999) comes from sales taxes (33.2% general and 14.8% selective). Another 40 percent comes from income taxes (34.5% personal and 6.1% corporate). Sources of information about state transit funding include the annual publication by FHWA, Highway Statistics, available online at www.fhwa.dot.gov/ohim.

In a Washington Post feature article (September 14, 2003 at A-1) the sources of Virginia's \$10.6 billion in revenue are shown to include \$6.7 billion of individual income tax, \$2.4 billion of sales tax, and \$308 million of corporate income tax, among others. Virginia's local governments raised just about the same total (\$10.7 billion), consisting of \$6.3 billion of property tax and \$1 billion of fees for services, among others.

Compared to its neighbors Maryland and the District of Columbia, Virginia's personal and corporate income and sales tax rates are lower. The personal income tax rates are 4.75 percent (plus 2.5-3.0 percent local) in Maryland, up to 9.3 percent on incomes above \$30,000 in D.C. and 5.75 percent on incomes above \$17,000 in Virginia. Corporate tax rates are 7.0, 10.0 and 6.0 percent, respectively. The sales tax rates are 5.0, 5.75 and 4.5 percent, respectively.

Just released in July, 2003 is a Transit Cooperative Research Program report using 2002 data (Characteristics of State Funding for Public Transportation, Project J-6/Task 46). It is available at http://gulliver.trb.org/news/blurb_detail.asp?id=1640.

Individual state funding for transit for 2002 varies from zero (five states) to \$2.1 billion (California). On a per capita basis, the range is zero to \$371. Virginia's 2002 per capita state transit assistance of \$18.25 ranked well below Maryland's \$118 and the District of Columbia's \$371.

Arizona reported 96 percent of its state transit funding came from lottery proceeds. States with large cities often set aside dedicated amounts or shares to be provided to those transit systems.

The report also describes the results of 28 ballot initiatives in many states during 2002 that sought to increase funding for transit. Twelve passed.

For FY 2004, a report by the National Conference of State Legislatures shows 41 states facing budget gaps totaling \$78 billion.

Regarding the transportation funding sources in Virginia, estimates for FY 03 from the Virginia Department of Transportation (VDOT) show motor fuels

taxes of 17.5 cents per gallon split between the Highway Maintenance and Operations Fund (HMOF) with 14.85 cents yielding \$692 million (\$47 million per penny); Transportation Trust Fund (TTF) with 2.5 cents yielding \$117.5 million; and the Department of Motor Vehicles with 0.15 cents. This results in about two percent of gas tax revenues for transit (since transit receives 14.7 percent of the TTF).

A motor vehicle sales and use tax of three percent is split between the HMOF with two percent yielding \$279.7 million in FY 03 and the TTF with one percent yielding \$151.5 million.

A \$28.50 motor vehicle license fee is split between the HMOF with \$16.00 yielding \$135.8 million and the TTF with \$3.00 yielding \$18.5 million, and DMV (\$4.00), the General Fund (\$4.00) and State Police (\$1.00) receiving the remainder.

Finally, a state general sales and use tax of 4.5 percent is levied, with a half cent going into the TTF yielding \$403.8 million. This is equivalent to about seven hundredths of a percent sales tax for transit.

In addition to revenues from these state taxes and fees, VDOT and the Virginia Department of Rail and Public Transportation (VDRPT) administer federal funds allocated to Virginia and also have the ability to borrow for capital projects. For example, as of December, 2002 the Commonwealth Transportation Board had \$2.1 billion in debt outstanding.

Need to Increase Virginia's Gas Tax

Virginia's neighboring states collect an average of 23.3-cents per gallon in state gas taxes. Virginia's 17.5-cents per gallon for gasoline and 16-cents for diesel fuel is unchanged since 1984. At current prices, that is equivalent to only 11-cents. Automatic indexing of motor fuel taxes would ensure that this user fee kept pace with inflation.

Another way of comparing the declining real yield of state and federal motor fuel taxes is to examine changes in revenues per mile driven. From 1957 (the federal Interstate Highway program was authorized in 1956) with a combined federal/Virginia gas tax of 9-cents per gallon and revenues of 0.7-cents per mile driven, the 2002 combined tax of 35.9-cents per gallon now yields 3.8-cents per mile. But subtracting the effects of inflation, the yield is only 2.2-cents per mile, or 42.4 percent less than the nominal yield. To restore the 1957 real yield would require an increase of 25-cents per gallon which would yield \$600 million annually in the Washington metropolitan region.

This approach is used in Resources for the Future Urban Complexities Issue Brief 03-05, Revving Up the Tax Engine: Gas Taxes and the D.C. Metro Area's Transportation Dilemma, by Peter Nelson, Kenneth Gillingham and Elena Safirova.

Using a model, the authors predict that a 25-cents per gallon gas tax in this region would produce a noticeable shift away from single occupant vehicles (two percent decline or 220,000 daily trips). HOV trips would increase by 1.4 percent (130,000). Time savings would be about 7.5 million hours annually (80 minutes per person).

Apportioning State Revenues to Highways and Transit in Virginia

The CTB adopts a six-year Transportation Development Plan each year. The FY 03 plan can be viewed at www.extranet.vdot.state.va.us/syp/Menu.asp. VDOT's FY 03 budget was \$2.9 billion, of which \$250 million was to be passed along to localities for ground transportation.

Considering all the sources of revenue in Virginia in FY 03 available for surface transportation, about \$1.3 billion was allocated by CTB, with \$117 million for transit (9.2 percent). Northern Virginia received about \$500 million in total (38.5 percent of the statewide funds) and \$89.0 million for transit (76 percent).

The commonwealth's \$7.2 billion FY 2004-09 program was approved in late June, 2003. The following are highlights of the sources of revenue for 38 public transit systems carrying 160 million annual passenger trips:

Total Revenues:	\$619 million		
System Revenues:	\$190 million	=	31%
Local	: \$160 million	=	26%
Federal	: \$146 million	=	24%
State	: \$123 million	=	20%

The CTB, in addition to allocating the state funds also allocates \$40 million of federal funds. The searchable report of this recently approved program is available at www.virginiadot.org.

When Virginia's transportation revenues are allocated, some are set by formula (e.g., 14.7 percent of Transportation Trust Fund revenues go to transit) but many are at the discretion of the Commonwealth Transportation Board, consisting of appointees of the Governor who react to programming decisions recommended by the Virginia Department of Transportation (VDOT) and the Virginia Department of Rail and Public Transportation (VDRPT).

Virginia ranks fourth in the U.S. for the highest state share (81.5 percent) of combined state and local funding for highways, as reported in the Governing 2003 Source Book at 81. As shown above, the commonwealth provides only 43 percent of combined state/local funding for transit. Virginia raises two-thirds of combined state and local revenues (p.29 of 2003 Source Book), so it can be seen that it is spending a disproportionate share on highways and shortchanging transit.

For Virginia highways, most revenues are held in the Highway Maintenance and Operations Fund (HMOF) and the Transportation Trust Fund (TTF). The HMOF funds maintenance and (if any funds are available) construction while the TTF funds construction. TTF funds, after off the top allocations and match for the federal Interstate Highway program and 5.7% to unpaved secondary roads, are used as follows:

- 40% to primary roads
- 30% to secondary roads
- 30% to urban system

These funds are further allocated by construction district and locality. The allocation factors include:

- Primary system = 5% needs, 70% vehicle miles traveled, 25% lane miles
- Secondary System = 80% population, 20% land area
- Urban System = 100% population

The Virginia Commonwealth Transportation Board (CTB) selects the Interstate and primary projects, county boards select secondary projects and the CTB approves urban system projects at the request of city/town councils. The urban system funds can be used for transit capital.

Priority Transportation Fund

While established formulas and discretionary programs are routinely administered by VDOT and VDRPT, occasionally the Virginia General Assembly will enact new funding programs and realign funding sources. Established by the 2000 General Assembly in the Virginia Transportation Act of 2000 (VTA 2000), various sources of funds have been used for this new program. Transit projects costing over \$242 million were listed in CTB's FY 01-06 TDP. The Northern Virginia District has \$190,225,000 (78.4 percent). Transit projects in this program include the Dulles Corridor (\$75 million) WMATA rolling stock (\$45 million), WMATA parking (\$26.0 million), VRE express service (\$10 million), Ballston Metrorail station improvements (\$5 million) and high-speed rail (\$29.2 million). High-speed rail in other districts (\$18.2 million in Fredericksburg and \$18.2 million in Richmond) also benefit the Virginia Railway Express (VRE). For FY 03, \$34 million was provided statewide, including \$27.5 million for projects in Northern Virginia.

The use of some general funds for transit projects such as these has proven to be a double-edged sword. At the close of FY 2001, the Department of Planning and Budget swept up all such unused general funds. These funds were reallocated to other uses within the proposed FY 2003 budget. The lesson here is for grant recipients to do everything possible to spend state funds quickly, especially in difficult financial circumstances. Currently FRANS provide much of the funding (borrowing against future federal revenues) for this program.

Governor Warner's Congestion Relief Program

Sometimes Governors and the CTB will realign revenues and spending without the need for General Assembly action. For FY 2004, Virginia Governor Warner announced an initiative to focus limited resources on congestion relief/air quality projects in Northern Virginia and Hampton Roads. Ultimately 12 projects recommended by the Northern Virginia Transportation Authority were funded by the CTB, at a total cost of \$9.9 million, including eight public transit/demand management projects and four intersection/highway improvements. Sources of funding were generally Northern Virginia's own allocation of primary highway system funds for the 20 percent non-federal match and federal minimum guarantee funds for the balance. Some state transit assistance funds were also used. Among the prominent examples were new Columbia Pike bus service at \$1.8 million, Loudoun County commuter bus service at \$2.0 million and VRE parking at \$950,000.

State Revenue Sharing

As was true at the federal level, state programs from non-transportation agencies can be used for transit capital. For example, in Virginia, formula allocated revenue sharing is a 50/50 program with local governments for projects costing up to \$1 million per year (see Section 33.1-75.1 of the Virginia Code).

Contrasts Between State Funding of Highways and Transit

In Virginia, highway projects have several advantages over transit in competing for state funding:

Item	Highways	Transit
Dedicated sources for non-federal match	Dedicated state sources (e.g. gas tax)	None
Annual maintenance and operating costs	Paid fully by state and therefore not an issue in project selection	Largely local responsibility
Federal funds to support operations	Some	None in urbanized areas above 200,000, although some flexibility is permitted by FTA.
Federal matching ratios	80 to 90%	Maximum of 80% and often much lower (e.g. 50%) for big projects
State matching ratio	98 to 100%	Statutory 95% for operations and capital, but actual ratios are much lower due to lack of funding (i.e. 20% and 40% for FY 2004).

As shown in **Figure 4**, in Virginia, federal funds cover 23.6 percent of total transit costs, the state covers 19.9 percent, local governments pay for 26 percent and transit riders pay 31 percent.

For highways, the respective shares are 25 percent federal, 72 percent state, one percent local and two percent other. Since local governments are restricted from using many revenue sources available to the state, the fact that local governments must pay a much higher share of transit costs provides a strong financial incentive for local governments to choose highways over transit projects.

Accordingly, the Virginia Transit Association and others have established as a top priority desired legislative changes to create more balance in the level of state support for highways and transit. In the 2001 General Assembly, for example, HB 2224 adjusted state matching ratios for transit programs so that for FY 2002 and beyond, the state may provide 95 percent for transit operations (if sufficient funds are appropriated). This represents an increase from maximum statutory ratios as low as 50 percent (as of FY 2001) for transit administrative costs.

Figure 4

Shares of Transit Costs in Virginia

-- FY 2004 --

OPERATIONS

	<u>System Revenues</u>		<u>Federal</u>		<u>State</u>		<u>Local</u>		<u>Total</u>	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
	Statewide	190.4	44.2	32.1	7.5	91.4	21.2	116.5	27.1	430.4
Northern VA	161.1	51.2	3.7	1.2	66.9	21.3	82.7	26.3	314.4	100
Northern VA % of State		84.6		11.5		73.2		71.0		73.0

CAPITAL

Statewide	—		114.7	61.6	30.2	16.2	41.2	22.1	186.2	100
Northern VA	—		72.4	54.7	23.5	17.8	36.3	27.4	132.3	100
Northern VA % of State				88.8		77.8		88.1		71.1

TOTAL

Statewide	190.5	30.8	146.1	23.6	123.3	19.9	159.1	25.7	619.0	100
Northern VA	161.1	35.8	76.9	17.1	92.2	20.5	119.6	26.6	449.8	100
Northern VA % of State		84.6		52.6		74.8		75.2		72.7

Note: \$ in millions.

Programs Administered by the Virginia Department of Rail and Public Transportation

The financial information in this section is taken from the Commonwealth Transportation Board's FY 2003 Public Transportation Improvement Program. The newly approved FY 2004 program is now available at www.drpt.state.va.us. The Virginia Department of Rail and Public Transportation (abbreviated DRPT), began as a division within VDOT before it was established as an independent department under the Secretary of Transportation in 1992. Its programs are funded by a combination of state trust fund revenues established by statute, general funds, and discretionary federal STP and other federal formula grants awarded by the CTB.

In Northern Virginia, NVTC coordinates applications for the two biggest state transit assistance programs (formula and capital) for five of its member jurisdictions (all except Loudoun County). Jurisdictions apply directly to DRPT for several of the other programs, including ridesharing, Transportation Efficiency Improvement Fund (TEIF), demonstrations and intern support.

Commonwealth Transit Assistance Programs

As defined in Sections 33.1 and 58.1-638 of the Virginia Code, for FY 03 transit received roughly \$99.4 million from the Transportation Trust Fund (14.7 percent plus interest of \$1,475,000). Another \$3.4 million was added to reflect a previous state revenue surplus and \$800,000 deducted for the paratransit program. With other adjustments the total is \$100.6 million. This leaves \$89.8 million for FY 2003. Of this, 73.5 percent (\$73.3 million) goes to the transit formula program, 25.0 percent to the transit capital program and 1.5 percent for special projects.

FY 03 state funds for transit programs also include \$1,900,000 for the Transportation Efficiency Improvement Fund (TEIF) and \$17.5 million of general federal STP funds for the statewide vehicle and equipment program (SVEP). Other federal funds include \$5.5 million of statewide STP for VRE track leases, \$5.9 million of FTA Section 5307, \$5.9 million of FTA Section 5311 and RTAP, \$1.2 million of FTA Section 5303, \$266,598 of FTA Section 5313 (b), \$1.8 million of FTA Section 5310 and \$2.2 million of federal Jobs Access and Reverse Commute funds.

Thus, total transit funds allocated by DRPT are \$119.9 million, plus \$17.3 million of FTA funds controlled by the state.

Not included in these totals is \$808,000 of funds taken off the top of Northern Virginia's primary highway allocation by VDOT to meet the Commonwealth's obligation to pay for reduced bus fares in the Northern Virginia region.

Universal Transportation Access Initiative

Former Virginia Governor Gilmore announced on July 18, 2000 an initiative to help relieve traffic congestion in the “northern part of Virginia.” A total of \$14.4 million, was provided from several sources for a telework incentive program and the Universal Transportation Access Initiative. Other parts of the program include an interactive ridesharing and kiosk initiative, employer shuttle initiative, mobile commuter store initiative and VRE initiative [leasing 10 MARC rail cars (\$140,000); location study for joint VRE/Manassas parking garage (\$250,000); and temporary parking in Manassas Park (\$100,000)].

The Universal Transportation Access Initiative also will expand WMATA’s SmarTrip farecards to Northern Virginia’s local bus systems and VRE. DRPT is providing over \$5 million for this purpose to NVTC (including a million dollars of federal funds).

Statewide Vehicle and Equipment Program (SVEP)

Created by the General Assembly to begin in FY 01, this program was funded initially with \$20,585,038 of general funds and \$14,288,000 of federal (SSTP) funds to total \$34,873,038. Transit projects funded from this source included local bus systems asking for less than \$5 million each year for capital projects, with an 80 percent state share.

For FY 03, \$17.5 million of federal statewide STP and minimum guarantee funds plus carryover was available for allocation by CTB and went to projects eligible for federal funds (such as the Virginia Regional Transportation Association in Loudoun County and VRE).

Transit Formula Assistance and Shortfalls

Each transit system reports to VDRPT its audited costs (fuel, tires, maintenance and administration—labor costs are not eligible) for the most recent fiscal year. This determines each system’s share of available funds. Only eligible costs (net of fare revenues) can be used to qualify for grants. For FY 2003, the maximum share of fuel, tires and maintenance costs is 95 percent; the maximum share of administrative costs is also 95 percent. For FY 2003, \$73.2 million of state funds were provided. Eligibility for FTM and administrative assistance statewide is \$162 million. Consequently the shortfall is \$89 million.

For NVTC the shortfall is \$58 million, which is greater than the \$54 million of formula assistance allocated to NVTC. In FY 2002, NVTC’s shortfall was \$33.3 million with \$54 million of aid received. These shortfalls for FY 2003 are shown in **Figure 5**. **Figure 6** shows the same information for FY 2004. For further details about transit assistance to NVTC for WMATA, VRE and Northern Virginia’s local bus systems, refer to NVTC’s annual handbook, published each January and available at <http://www.thinkoutsidethecar.org/products/handbook.asp>

Figure 5

**FY 2003 State Transit Assistance for NVTC Systems with
FY 2002 Comparisons
(\$ millions)**

	<u>FY 2003</u>		<u>FY 2002</u>		<u>Increase (Decrease) From 02 - 03</u>	<u>FY 2003 Shortfall</u>
	<u>State Funds</u>	<u>Matching %</u>	<u>State Funds</u>	<u>Matching %</u>	<u>State Funds</u>	<u>-</u>
CAPITAL						
WMATA	\$ 7.2	@49%	\$ 15.0	@41%	\$ (7.8)	\$ (6.7)
Local	6.5	@49%	4.1	@41%	0.6	(6.1)
			1.8	@80%		
Subtotal	<u>13.7</u>		<u>20.9</u>		<u>(7.2)</u>	<u>(12.8)</u>
VRE	<u>5.1</u>	@49%	<u>3.6</u>	@41%	<u>1.5</u>	<u>(4.8)</u>
Subtotal	<u>18.8</u>		<u>24.5</u>		<u>(5.7)</u>	<u>(17.6)</u>
FTM/ADMIN						
WMATA/Local	44.9		48.8		(3.9)	(56.3)
VRE	<u>5.0</u>		<u>5.3</u>		<u>(0.3)</u>	<u>(1.6)</u>
Subtotal	<u>49.9</u>		<u>54.1</u>		<u>(4.2)</u>	<u>(57.8)</u>
COMBINED CAPITAL/FTM/ ADMIN						
WMATA/Local	58.6		69.7		(11.1)	(69.1)
VRE	<u>10.1</u>		<u>8.9</u>		<u>1.2</u>	<u>(6.4)</u>
TOTAL	<u>\$ 68.7</u>		<u>\$ 78.6</u>		<u>\$ (9.9)</u>	<u>\$ (75.4)</u>

Figure 6

**Tentative FY 2004 State Transit Assistance for NVTC Systems
With FY 2003 Comparisons
(\$ millions)**

	<u>FY 2004</u>		<u>FY 2003</u>		<u>Increase (Decrease) From 03 - 04</u>	<u>FY 2004 Shortfall</u>
	<u>State Funds</u>	<u>Matching %</u>	<u>State Funds</u>	<u>Matching %</u>	<u>State Funds</u>	<u>-</u>
CAPITAL						
WMATA	\$ 11.6	@40%	\$ 7.3	@50%	\$ 4.3	\$ (15.9)
Local	4.1	@40%	6.6	@50%	(2.5)	(5.7)
Subtotal	<u>15.7</u>		<u>13.7</u>		<u>1.8</u>	<u>(21.6)</u>
VRE	4.8	@40%	5.2	@50%	(0.4)	(6.7)
Subtotal	<u>18.8</u>		<u>24.5</u>		<u>(1.4)</u>	<u>(28.2)</u>
FTM/ADMIN						
WMATA/Local	49.4		44.9		4.5	(54.6)
VRE	5.8		5.0		0.8	-
Subtotal	<u>55.2</u>		<u>49.9</u>		<u>5.3</u>	<u>(54.6)</u>
COMBINED CAPITAL/FTM/ ADMIN						
WMATA/Local	65.1		58.6		(6.5)	(76.2)
VRE	10.6		10.1		0.5	(6.7)
TOTAL	<u>\$ 75.7</u>		<u>\$ 68.7</u>		<u>\$ 7.0</u>	<u>\$ (82.8)</u>

Note: (Includes only funding from current year funds for current year budgeted expenditures)

Transit Capital Assistance and Shortfalls

For FY 2003, state aid of \$25 million was available to cover non-federal capital costs, providing a matching ratio of 50 percent versus the statutory target of 95 percent. The statewide shortfall was \$22.5 million.

For FY 2003, NVTC received a grant of \$9.6 million for WMATA and \$5.7 million for local bus systems at a state matching ratio of 50 percent. NVTC received another \$4.5 million for VRE plus \$4.8 million for track leases from another source. For FY 2004, the state matching ratio is 40 percent. See **Figures 5** and **6** for details.

Northern Virginia Shares of Statewide Formula and Capital Assistance

Returning to **Figure 4**, it is evident that the Northern Virginia transit systems receive less federal assistance (17.1 percent) than the other transit systems (23.6 percent) as a proportion of total sources of funding. Northern Virginia transit systems also generate considerably more revenue from customers (35.8 percent versus 30.8 percent). While Northern Virginia generates 72.7 percent of statewide total transit operating and capital costs combined, it receives 52.6 percent of federal assistance received statewide and generates 84.6 percent of statewide transit system fare and other system revenues. It also pays 75.2 percent of total statewide local transit subsidies.

Technical Assistance

Continuing with the description of individual programs administered by VDRPT, for FY 2003, \$245,600 in federal funds and \$230,700 in state funds covered 90 percent of the cost of eight projects statewide (including \$80,000 for Alexandria DASH transit facility design and \$200,000 for VRE service in the I-66 corridor).

DRPT Training and Intern Program

For FY 2003, \$255,137 in state funds was allocated to cover 95 percent of the costs of interns and training coordinators at nine agencies, including Fairfax County DOT, Alexandria DASH and PRTC.

State Capital Assistance for Paratransit

With \$800,000 taken off the top of transit's allocation from the TTF, grants were provided by the CTB in FY 01 for vehicles at matching ratios of 95 percent. Fastran of Fairfax County received \$47,500.

Special Projects/Demonstrations

DRPT pays up to 95 percent of eligible costs. For FY 2003, \$683,257 of state funds were used to support \$1,698,192 of project costs of the dozen projects funded, only one (Richmond Main Street Station) received any federal funding (\$491,226). NVTC received \$105,263 for an ITS project.

State Ridesharing /Transportation Demand Management Grants

For FY 03 \$1.9 million of funding from the commonwealth's Transportation Efficiency Improvement Fund (TEIF) was used, together with \$359,400 of special state project funds to assist planning district commissions and other rideshare sponsors. Within Northern Virginia, \$1.6 million of program costs were funded for six jurisdictions.

FTA Section 5303

For FY 03, CTB allocated \$1.2 million of FY 02 federal funds and \$155,511 of state funds to Metropolitan Planning Organizations around the commonwealth, including \$592,779 to the Transportation Planning Board of the National Capital Area.

FTA Section 5307

Using \$5.8 million of federal FY 02 formula funding for operations and capital, DRPT provides assistance to several systems in urbanized areas of 200,000 or less, including Charlottesville, Fredericksburg and Roanoke, among others.

FTA Section 5310

For FY 03 CTB allocated \$1.8 million of FY 02 FTA funds to cover 80 percent of the costs of grants for vehicles to private, non-profit agencies providing transportation for the elderly and persons with disabilities. ARC of Prince William County received \$62,450 and Fastran of Fairfax County received \$80,000.

FTA Section 5311 Program

For FY 03, \$5.8 million of federal FY 02 operating funds were allocated by Virginia's CTB to small/rural transit systems, including \$987,409 to Loudoun County's Virginia Regional Transportation Association. Another \$114,025 from the statewide Rural Transportation Assistance Program (RTAP) was used to fund this program.

FTA Section 5313 (b)

For FY 03, CTB used \$266,598 of FY 02 FTA funds together with \$30,700 of state funds to cover 90 percent of rural and small urban projects, including \$80,000 for Alexandria DASH's transit facility design study and \$50,000 for PRTC's procedures study.

Federal Jobs Access and Reverse Commute

In addition to direct federal grants to recipients from this program, some funding beginning in FY 01 went to DRPT for allocation. For FY 03, \$2.2 million was allocated, including \$220,134 to PRTC for all-day employment bus service, leaving \$1.3 million for allocation in FY 04.

State Rail/Highway Crossing (Section 130)

This program uses part of federal safety set-aside funds. Bicycle safety at rail crossings is allowed. For FY 2003, \$7.3 million was allocated by CTB statewide. Northern Virginia projects received \$1.8 million.

High Speed Rail Corridor Safety Programs

The Section 130 program provided \$800,000 in FY 2003, including \$200,000 in the Northern Virginia District. The Section 1103 program provided \$30,000 statewide in FY 2003 (none in Northern Virginia).

Virginia High Speed Rail Program

The 2000 General Assembly provided funding which will be distributed by VDOT construction district in the Richmond-Washington D.C. corridor. Richmond will receive \$18.2 million, \$18.2 million will go to Fredericksburg and \$29.2 to Northern Virginia for a total of \$65.6 million over six years. These funds will be spent by VDRPT for projects included in the corridor plan. The priorities are being discussed with CSXT, VRE, FRA, Amtrak and others. Contact is George Conner of VDRPT at 804/786-1052.

Transportation Efficiency Improvement Fund (TEIF)

For FY 03, in Northern Virginia, four local ridesharing programs received \$1,044,000, or about 45 percent of the total available statewide. The program is jointly administered by VDOT and VDRPT. The VDRPT contact is Gus Robey at 804/786-7968.

Programs Administered Primarily by the Virginia Department of Transportation

The Virginia Transportation Development Plan (VTDP), which covers a six-year period and is updated annually is the Bible of state transportation funding sources. The Commonwealth Transportation Board seeks public input at hearings (held last in March, 2003 and scheduled next for Fall, 2003) and approves the initial program in May, with more public hearings preceding a final vote in June. The VTDP lists the status and source of funding for all approved projects.

Many federal funding sources are used from FHWA, including Appalachian Development, Defense Access, Bridge Replacement and Rehabilitation, Interstate and Interstate Maintenance, among others described below. State sources include toll facilities, general funds, trust funds and bonds. Total funding in the plan for FY 2003 is \$1.3 billion, with \$7.3 billion projected for the entire six years.

Northern Virginia Transportation District Bonds

Since 1993 the Virginia General Assembly has authorized a series of bonds to support transportation projects in Northern Virginia using local revenue sources to help cover debt service (e.g. recordation fees, telecommunications fees). Transit projects have been included (about \$100 million for WMATA stations and railcars and smaller amounts for local station improvements). (See **Figure 7**).

The Virginia Treasury Board issues the bonds at the request of the CTB. NVTC receives the WMATA-related bond proceeds from VDOT and allocates the funds among its members using its approved formula. NVTC then holds the funds in trust until instructed by each locality to release the funds for eligible WMATA billings.

The CTB is the second largest issuer of state debt in Virginia with \$2.1 billion outstanding. Virginia enjoys the top bond rating, as do several Northern Virginia jurisdictions. However, with an anticipated state budget shortfall of \$1 billion, at this time Moody's has placed Virginia on its "watch list." If Virginia does receive a lower rating, there are likely to be serious financial and political consequences.

The commonwealth's debt capacity model, which is used as a guide to how much debt can be authorized by the General Assembly, uses a maximum target of tax-supported debt service of no more than five percent of revenues over a 10-year horizon. This very conservative model (localities generally use a 10 percent target) showed excess capacity for state debt of \$1.4 billion over the FY 2001-02 biennium. At that time the actual debt service ratio was closer to three percent than the target of five percent. This was true even though all

Figure 7

**State Issued Bonds For Northern Virginia
Transportation District Transit Projects**

General Assembly <u>Approved</u>	VDOT Issues <u>Bonds</u>	Amount <u>for Transit</u>	Examples of <u>Transit Projects</u>
1999	2001	\$ 16,000,000	Metro Rail Cars
		4,200,000	King Street Access
		6,000,000	Dulles Corridor Enhanced Transit
		<u>6,200,000</u>	Ballston Station Improvements
	Total 01	<u>\$ 32,400,000</u>	
1998	1999	13,300,000	Metro Capital Improvements
		<u>4,400,000</u>	King Street Platform
	Total 99	<u>\$ 17,700,000</u>	
1994	1996	20,328,674	Metro Capital Improvements
1994	1995	19,678,161	Metro Capital Improvements
1993	1993	<u>45,593,165</u>	Metro Capital Improvements
	Total 93-96	<u>\$ 85,600,000</u>	
Total		<u><u>\$ 135,700,000</u></u>	

The primary source of debt service on the 1996 and prior bond issues is from local recordation funds. For the 1999 and 2001 bond issues, debt service is funded approximately 60 percent from local funds, as shown (with dollars in millions):

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Recordation (local)	17.0	17.0	17.0	17.0
ROW (local)	3.2	3.8	4.4	5.4
Contract (local)	0.8	0.8	0.8	0.8
State General Funds	2.1	3.2	11.2	11.2
State HMOF Surplus	-	4.8	3.5	3.5
	<u>\$ 23.1</u>	<u>\$29.6</u>	<u>\$36.9</u>	<u>\$37.9</u>
Local Funds:				
Recordation	17.0	17.0	17.0	17.0
ROW fees	3.2	3.8	4.4	5.4
Local contract amounts	0.8	0.8	0.8	0.8
	<u>\$ 21.0</u>	<u>\$ 21.6</u>	<u>\$ 22.2</u>	<u>\$ 23.2</u>
Percent Local Funds:	91%	73%	60%	61%

authorized debt issues were included, whether or not they had actually been issued. Refer to **Figure 8**.

A March 19, 2003 briefing paper by Barbara Reese, VDOT's Chief Financial Officer, describes the current status of CTB debt policy. For FY 2003 and beyond, CTB has adopted a policy of minimizing the use of debt. As of December, 2002 CTB had outstanding debt of \$2.1 billion for eight projects. FY 2004 debt service will be about \$247.2 million (13 percent of estimated highway construction revenues). Projects include \$70 million for the Dulles Toll Road, \$350 million for other Northern Virginia projects and \$865 million in FRANS, which are limited to 10 year terms.

As of December, 2002 Virginia's Debt Capacity Advisory Committee (DCAC) reaffirmed five percent as the maximum ratio of tax-supported debt service as a percentage of revenues. FRANS are not included in this calculation. Legislation that took effect on July 1, 2003 required CTB to establish a debt management policy and DCAC to develop a debt capacity model for transportation. In part this requirement was due to the sharp increase in debt, with over \$600 million issued in FY 2002 and about \$700 million in FY 99-01, compared to virtually none in FY 97 and 98. Currently over \$335 million in additional FRANS are authorized for sale and CTB's six-year program envisions \$532.5 million will be needed. Future FRANS sales are expected to cover Metrorail rolling stock (\$27.0 million); Woodrow Wilson Bridge (\$49.2 million); and Dulles Rail (\$58.4 million), among others.

In the 2002 General Assembly, \$317 million in FRAN's were authorized to substitute for a diversion of sales and use taxes to the General Fund and in FY 2003 and 2004 about \$40 million annually of general funds are being returned to offset reduced federal reimbursements related to debt service. There is no guaranteed repayment source after FY 2004.

The net result of the use of FRANS has been debt service/federal revenues ratios as high as 22 percent (versus the DCAC target of five percent). If the 10-year FRANS are adjusted to 25-years to match other state debt, these ratios drop by about half, but still generally exceed the five percent target.

FHWA Allocated Funds

The following Virginia programs are among those funded by monies allocated to VDOT by FHWA from the Federal Highway Trust Fund. The programs and amounts for FY 2003 received by the Northern Virginia District are (all in millions of dollars) compared to statewide totals:

Figure 8

Comparisons of Target Debt Ratios and Bond Ratings of Northern Virginia Jurisdictions and the Commonwealth of Virginia as of FY 02

<u>Jurisdiction</u>	<u>Target Ratio</u>	<u>Bond Ratings</u>
Loudoun County	10%	Aa1 Moody AA+ S&P AA+ Fitch
City of Alexandria	1.10% Fair Market Value of Real Property 2.25% Debt per capita as percentage of per capita income 8% Net debt service to general government expenditure	Aaa Moody AAA S&P
City of Fairfax	10%	Aa1 Moody AA+ S&P
Fairfax County	10%	AAA S&P
Falls Church	5% General funds from net asset value of taxable property	AA2 Moody A+ S&P
Arlington County	8% (actual)	Aaa Moody AAA S&P AAA Fitch
Prince Williams County	10% limit	AA+ Moody AA1 Fitch
Commonwealth of VA	5%	Aaa Moody AAA S&P

	<u>Northern Virginia/Statewide</u>	<u>NoVa % of State</u>
National Highway System-Interstate:	\$132.5/\$188.6	70.3
NHS – Non Interstate:	12.0/33.5	35.8
TEA-21 High Priority (including Wilson Bridge)	11.6/41.4	28.0
Enhancement	2.1/19.1	11.0
Rail Safety	2.0/8.6	23.3
STP – Statewide	4.2/16.9	24.9

VDOT recommends these allocations for specific projects in each district and the Commonwealth Transportation Board adopts the allocations in its six-year Transportation Development Program. While the above funds could all be flexed to transit, only \$5.5 million of FY 03 STP-Statewide was actually provided for transit uses (VRE track leases). The interstate allocations vary significantly from year to year. Because the Springfield Interchange and the Wilson Bridge projects are underway, Northern Virginia received a large share of the statewide total in FY 03.

State Allocated Funds

As mentioned above, VDOT/CTB provide three major types of formula-driven funding programs for highways (with some ability to flex for transit uses). These are, with amounts allocated to Northern Virginia in FY 2001 (in \$millions) compared to statewide totals:

	<u>Northern Virginia/Statewide</u>	<u>No VA % of State</u>
Primary:	\$ 17.9/\$121.2	14.8
Urban:	10.1/100.2	10.1
Secondary:	33.8/151.1	22.4

Congestion Mitigation and Air Quality

VDOT reallocates these federal funds from FHWA to regions that have been classified as serious or severe using federal air quality standards based on severity of pollution and population. The regions, using their own criteria within the constraints of the federal program, then decide how to spend the available funds. They must obtain metropolitan planning organization (MPO) approval for inclusion in the TIP and VDOT must ultimately include the projects in its annual STIP.

Northern Virginia used \$11.9 million for highways and \$7.0 million for transit in FY 2003. A 20 percent local match is required.

For flexible funds (such as CMAQ and RSTP), transit project sponsors must first arrange with VDRPT and VDOT to have the funds transferred from FHWA to FTA before they can begin to receive funds. FTA uses its criteria to approve the grants and administer the funds.

For FY 03 CTB chose to directly allocate \$3.0 million of CMAQ plus \$760,000 of match for Transportation Emissions Reduction Measures (TERM's) in Northern Virginia.

Regional Surface Transportation Program

VDOT reallocates these funds from FHWA to regions that have been classified as having serious or severe air quality. The regions decide how to allocate the funds and then obtain MPO approval (include the projects in the TIP). VDOT must then include the projects in its STIP. RSTP funds require no local match.

Northern Virginia used \$22.0 million in FY 2003 for highway projects and \$1.6 million for transit.

Transportation Enhancement Program

For FY 2003, \$19.1 million was provided in average grant sizes of \$200-\$300,000 to local applicants.

The National Transportation Clearinghouse also provides information about projects (the program is mandated by TEA-21 as a set aside of STP funds allocated to the state). See www.enhancements.org.

In Virginia, local governments often sponsor applications of other groups, especially if the groups have available the required 20 percent non-state match. Endorsement from the local metropolitan planning organization is also needed, as is a public hearing.

Northern Virginia received \$2.1 million in FY 2003.

These projects should relate to intermodal transportation and make projects more aesthetically pleasing, as well as providing a "quality of life" benefit. VDOT has 11 categories of projects from pedestrian and bicycle facilities through preservation of rail corridors, outdoor advertising removal and historic preservation.

STP Safety Programs

CTB allows localities to leverage these funds by using state construction allocations to match these federal funds. CTB selects projects from a statewide priority list. Funds for this program are approximately \$19 million annually. For FY 03 Northern Virginia had no projects funded from these STP funds that are related directly to public transit or rail safety.

In some cases these TEA-21 federal funds flow to Virginia's Department of Motor Vehicles (not VDOT). For example, in FY 2001 DMV received \$3.7 million of federal funds to continue enforcing the 0.8 blood-alcohol content law in Virginia and another \$3.2 million to target aggressive or intoxicated motorists with radar, in-car video cameras and alcohol-screening instruments.

State Hazard Elimination Safety Improvement Program

This program uses part of the federal safety set-aside funds (Section 152) and provided \$10.5 million in funding in FY 2003, including \$6.0 in Northern Virginia.

Open Beverage Container Safety Program

States without open container laws have a portion of their NHS, STP and IM funds transferred to their highway safety program for use in hazard elimination projects. Using \$5.8 million of federal funds statewide, it provided \$645,000 for several grants for Northern Virginia projects.

Other Programs Administered by Virginia State Agencies

Among the programs with potential application to transit needs is a grant program administered by the Virginia Department of Motor Vehicles using federal funding for law enforcement agencies from the National Highway Traffic Safety Administration under Section 402. Fairfax County has received an award for purchasing six variable message signs to assist in its traffic management and information program. An in-kind match was used to secure these federal funds via DMV.

The Virginia Resource Access System is an on-line searchable catalog of financial and technical assistance programs. See www.cns.state.va.us/dhcd/vras.cfm. Examples include the Virginia Recreational Trails Fund Program administered by the Virginia Department of Conservation and Recreation. Total funds available are about \$1 million, with average grants of about \$50,000 requiring a 20 percent non-state match (e.g. 15 percent federal/5 percent local).

Office of Emergency Management

The Virginia Office of Emergency Management has access to federal funds for such programs as “State and Local All Hazards Emergency Operations Planning Grants.” These funds come from FEMA and can be used to develop strategies for overall local preparedness. No cash or in-kind local match is required. Fairfax County took advantage of this program with a \$185,000 award for federal FY 02 received in April, 2003.

VOEM allocated its funds using a base of \$5,000 plus \$.18 per capita.

REGIONAL REVENUE SOURCES

Regional Agencies and Partnerships

Northern Virginia is an integral part of the greater metropolitan Washington region that includes the District of Columbia and Maryland suburbs. These subregions work together through the Transportation Planning Board of the National Capital Region to devise transportation solutions, but traffic growth has had detrimental effects on mobility and air quality.

In the 2002-3 annual report of the Metropolitan Washington Council of Governments, it is forecast that population will grow by 31 percent over the next two plus decades, jobs by 41 percent, vehicles by 42 percent, vehicle miles traveled by 44 percent and lane miles by only 12 percent. A funding gap exists of \$1.74 billion per year, or \$43.5 billion over the next 25 years. TPB reports that 80 percent of projected revenues must be spent on maintaining and operating the existing transit and highway systems.

TPB's draft 2030 CLRP financial analysis (April, 2003) shows that \$93 billion is expected to be available in the metropolitan Washington region between now and 2030 (about \$3.46 billion per year) in constant 2003 dollars. This amount is about \$400 million greater per year than was forecast in 2000. The draft 2003 analysis forecasts that 60 percent will be spent on transit (up from 52 percent forecast in 2000). Expansion of transit and highways would consume 22 percent of the total.

The draft 2003 analysis (and the previous 2000 version) are available at MWCOG's website: www.mwcoq.org.

Looking to the future, as the local and state partners in the Washington metropolitan region complete their update of TPB's constrained long range (2030) plan, currently Virginia's participants have identified funding for 99.4 percent of WMATA's operating costs but only 83 percent of WMATA's \$1.4 billion capital request. This consists of all of the infrastructure renewal program (IRP) and system access program (SAP) but only 70 percent of the system expansion program (SEP). But WMATA's funding requests considered in the CLRP are themselves constrained and are time sensitive. Even full funding over the life of a 20-year plan could result in serious shortfalls, say over the first six years.

There is no dedicated funding source for WMATA other than NVTC's two percent motor fuels tax. This region is at a disadvantage to other major urban areas in the U.S. because dedicated sources of revenue are used to support almost all of the largest transit systems. NTD data show that 70 percent of the \$12.3 billion in nationwide transit operating funds in FY 2001 came from dedicated funding sources. Sources of revenue for those dedicated sources are primarily sales taxes (78 percent of 2000 revenues), with 6% gas taxes, 9% property taxes, 1% income taxes and 6% other. See TCRP Report 89 at 81.

Within the Washington metropolitan region, the federal government plays an especially influential role. That appears to be one reason that the federal government agreed to fund about two-thirds of the construction cost of WMATA's Metrorail system, with the first station opening in 1976 and the 103-mile initial system now complete. Currently almost half of Metrorail's peak period riders are federal employees. This region's unique location attracts tourists and terrorists. Accordingly, the region continues to seek direct funding from the federal government to defray some of these unique costs.

Currently NVTC and PRTC in Northern Virginia receive the proceeds of two percent motor fuel sales taxes collected by the Virginia Department of Taxation from retail service stations. Proceeds now are up to \$30 million annually. See **Figure 9**. NVTC's gas taxes are allocated by NVTC to the point of sale and are required by statute to help support WMATA (with the exception of Loudoun County, which joined NVTC in 1990 and can use its gas tax allocation for any transportation purpose consistent with the county's transportation plan). PRTC jurisdictions also can use their gas tax proceeds for any transportation purpose although most funds are used to support VRE.

In seeking an increase in its two percent motor fuels tax from the 2003 General Assembly, NVTC projected (based on the average yield over the past two years) that each one percent increase in the rate would yield almost \$10 million for NVTC jurisdictions.

Virginia's Transportation District Act defines how localities can create a district commission. On the southern and western borders of the Northern Virginia region, several jurisdictions are considering forming a new district. Officials at the Rappahannock Area Development Commission estimate that a half-cent sales tax in the city of Fredericksburg and Stafford, Spotsylvania, King George and Caroline counties might yield \$11.4 million annually. A two percent gas tax might yield \$4.2 million annually.

State statutes provide that commissions with jurisdictions contiguous to NVTC can collect the two percent motor fuels tax. Since certain PRTC jurisdictions have joined NVTC for the limited purpose of becoming eligible for WMATA to operate their transit systems, that particular proposed commission would likely be eligible to assess the two percent tax. However, if Prince William County were to withdraw from NVTC (as seems likely since WMATA no longer operates PRTC's OmniRide and OmniLink under contract), then those jurisdictions would not qualify to use the tax under existing legislation.

The Virginia General Assembly adopted legislation in 2002 that allowed a referendum on a half-cent regional sales tax increase for transportation. That referendum, held in November, 2002, was not successful. The ill-fated November 5th referendum would have generated \$140 million per year from a regional half-cent sales tax. This equals almost as much as all the interstate highway and primary highway dollars allocated by the CTB to all the rest of Virginia. Of the \$2.75 billion that would have been generated over 20 years

Figure 9

**Gross Gas Tax Received During Fiscal Year 2003 by the Northern Virginia
and Potomac and Rappahannock Transportation Commissions as
Reported by the Virginia Department of Taxation**

NVTC

Arlington County	\$2,033,800
Fairfax County	12,321,100
Loudoun County	3,663,400
Alexandria	1,773,500
City of Fairfax	759,400
Falls Church	<u>474,200</u>

Total NVTC **\$21,025,400**

PRTC

Prince William County	5,791,600
Stafford County	1,836,500
City of Manassas	861,000
City of Manassas Park	447,800
City of Fredericksburg	<u>985,300</u>

Total PRTC **\$9,922,200**

Total NOVA **\$30,947,600**

through bond sales supported by the sales tax increase, about 40 percent would have gone for transit, including 50 new bi-level railcars for VRE (\$100 million), \$250 million for WMATA and \$75 million for other regional transit capital needs.

NVTC has issued and refinanced several series of bonds to help VRE build stations and buy railcars and locomotives. The initial issue was \$79.4 million in 1990, followed by \$37.6 million in 1993, \$23 million in 1997, and \$31.7 million in 1998. At the close of FY 2002, remaining obligations were \$83.2 million in principal and \$34.2 million in interest. Under the powers of the Transportation District Act, these bonds did not require a referendum. Since passenger revenues do not cover all operating expenses, the bonds are secured with a general pledge of other VRE revenues, federal grants, and local jurisdiction contributions. In effect the state and local governments must agree each year to appropriate funds to cover debt service, but are under no obligation to do so. Thus, these bonds, known as "appropriations-based credit," depend on the essential nature of the public service being provided by VRE. Also, bond insurance (financial guaranty bond) was purchased at the cost of a few basis points to achieve an investment grade bond rating and favorable interest rates for these tax-exempt bonds.

Currently, NVTC and PRTC are considering again a refunding of some of NVTC's outstanding VRE debt to take advantage of favorable interest rates and to generate additional funds for its capital program.

WMATA is the major regional transit provider, having been created by an interstate compact effective February 20, 1967. WMATA has been at the forefront of innovative forms of finance, including complex equipment sale-leased back transactions. As permitted under federal regulations, the authority generates revenues from its joint development activities, including the sales of long-term property leases. For FY 2004, revenues from this source will total \$12 million, with \$15 million expected by FY 2006. The proceeds are deposited into a fund, known as the Transit Infrastructure Investments Fund (TIIF). Local jurisdictions have access to the first \$50 million, which is allocated using the rail construction formula (26.3 percent for Northern Virginia). Funding above the \$60 million threshold is allocated through FY 07 for several regional WMATA projects, including SmarTrip fare integration (\$9.6 million).

The Route 28 tax district is an innovative form of regional cooperation, formed to pay for highway improvements in this densely traveled north-south corridor bordering Dulles Airport. A tax of 20-cents per \$100 of assessed valuation is levied on commercial property owners through 2037 or until all six interchanges have been built. The yield is about \$11.5 million annually. About \$6 million annually goes to repay debt on \$86.6 million of bonds. Another \$90 million bond issue is being considered.

Projected Yields of Expanded Regional Revenue Sources

In July, 2003 a controversy raged as the District of Columbia announced its intention to support a lawsuit that seeks to overturn a federal prohibition on the

district levying a commuter tax (such as an income tax on earnings from D.C.–located employers received by non-D.C. residents). Such an income tax paid to D.C. would likely be deducted from income taxes due to Virginia and Maryland, thereby shifting existing revenues without creating a new source of additional regional funding. Elected officials in the suburbs generally responded that a dialogue on funding issues would be more productive than a lawsuit.

If D.C.'s graduated income tax up to 9.3 percent were applied, \$1.4 billion in revenues would result from Maryland and Virginia workers. If an upper limit of two percent is applied to the graduated tax rate, the estimated yield is \$540 million annually. (Washington Post (7/15/03) at B-4.)

This raises the issue of whether a regionwide funding source for transit is desirable or possible, compared to individual actions by the Virginia and Maryland suburbs and the District of Columbia to identify and enact stable and reliable funding sources to protect past investments in transit and enable future improvements. As stated above, WMATA is the only major transit system in the U.S. without a true source of dedicated funding (NVTC's two percent gas tax is dedicated to WMATA but provides a tiny fraction of WMATA's total funding and only about 10 percent of Northern Virginia's share).

In mid-2003, Representative Moran has again introduced legislation in Congress that would establish MWCOG/TPB as a regional authority with the ability to borrow to complete vital regional transportation projects. The bill includes a source of federal seed money to assist the region in initiating the proposed new authority.

Regional and local funding sources traditionally rely on motor fuel taxes, sales taxes, property taxes and income taxes. In the Washington metropolitan area in general and Northern Virginia in particular, proceeds of some of these taxes are available but others have been precluded. For example, the District of Columbia has been unable to persuade Congress to tax the incomes of commuters living outside the District while in Northern Virginia the commonwealth has been unwilling to permit the region to use some of the revenue-raising measures reserved for the state.

Several studies have indicated the anticipated yields from various regional and local taxes that could be used to support transit capital projects if legislative permission were granted. They are shown in the attached **Figures 10-16**.

The Greater Washington Board of Trade has argued that an additional \$1 per day per household in the Washington metropolitan region can be leveraged to yield \$20 billion over 20 years. Considering the current levels of federal, state, and regional motor fuel taxes, drivers pay no more than three cents per mile. The Federal Highway Administration estimates that it costs about 30-cents per mile to provide peak period highway facilities. Since drivers are not charged full costs for using roads during peak periods, excess demand (congestion) results,

Figure 10

**Washington Metro Region
Sources of \$100 Million Annually**

<u>Tax</u>	<u>Proposed Additional Tax</u>	<u>Current Rate</u>
Gas	4¢ per gallon	D.C.=20¢; MD=23.5¢; VA=17.5¢
Parking	\$5 per non-resident space	None
Payroll	\$3 per employee per month	None
Sales	¼ ¢	D.C.=5.75-13%; MD=5%; VA=4.5%
Road pricing	20-25¢ per mile on 200 lane-miles	None
Vehicles	\$3 per vehicle/month	Varies

Source: Cambridge Systematics for MWCOG (1998)

Figure 11

Fairfax County Sales Tax Yields
(Assuming Six Percent Annual Revenue Growth)

<u>Tax</u>	<u>Level</u>	<u>Yield</u>
Sales	½ ¢ in 2003	\$80.1 million
	½ ¢ in 2012	\$135.1 million

Source: Fairfax County

Figure 12

**Northern Virginia Local Income Tax Revenue Estimates
(1996-99)**

<u>Locality</u>	<u>Rate</u>	<u>Yield</u>
Arlington	¼%	\$ 9.7 million
	1%	\$ 39.0 million
Fairfax County	¼%	\$ 48.5 million
	1%	\$194.0 million
Loudoun County	¼%	\$ 6.0 million
	1%	\$ 24.1 million
Prince William County	¼%	\$ 8.0 million
	1%	\$ 32.0 million
Alexandria	¼%	\$ 5.9 million
	1%	\$ 23.5 million
City of Fairfax	¼%	\$ 0.8 million
	1%	\$ 3.1 million
Manassas	¼%	\$ 1.1 million
	1%	\$ 4.4 million
Manassas Park	¼%	\$ 0.2 million
	1%	\$ 0.8 million
Total (1996)	¼%	\$ 80.2 million
	1%	\$320.8 million
Projected Total (1999)	¼%	\$107.4 million
	1%	\$429.6 million

Source: VDOT (2/17/99)

Figure 13

Virginia Yield of Statewide Revenue Sources

<u>Tax</u>	<u>Increase</u>	<u>Yield</u>
Gas	1¢ per gallon	\$ 44 million per year
Vehicle Sales and Use	1%	\$140 million per year
Retail Sales and Use	½%	\$350 million per year
Vehicle Registration	\$1	\$ 6 million per year

Source: VDOT (March, 1998)

Figure 14

Northern Virginia Revenue Yields

<u>Tax</u>	<u>Increase</u>	<u>Yield</u>
Gas	1¢/gallon	\$9.2-9.4 million per year
	5¢/gallon	\$46-47 million per year
	20¢/gallon	\$184-188 million per year
Sales	¼%	\$57-60 million per year
	1%	\$228-240 million per year
Income	¼%	\$107-114 million per year
	½%	\$215-228 million per year
	1%	\$429-456 million per year

Source: Dulles Corridor Task Force

Figure 15

Board of Trade Washington Metro Region Revenue Yields

<u>Tax</u>	<u>Increase</u>	<u>Yield</u>
Gas	1¢ per gallon	\$ 19.4 million per year
	10¢ per gallon	\$194.2 million per year
	25¢ per gallon	\$485.5 million per year
Sales	¼%	\$ 93.6 million per year
	1%	\$374.4 million per year
	2%	\$748.8 million per year
Income	¼%	\$223.2 million per year
	1%	\$892.8 million per year
	2%	\$1,785.6 million per year
Property	2.5¢ per \$100 assessed valuation	\$ 51.8 million per year
	10¢ per \$100 assessed valuation	\$207.1 million per year
	20¢ per \$100 assessed valuation	\$414.2 million per year

Source: Greater Washington Board of Trade (1997)

Figure 16

MWCOG Washington Metro Region Revenue Yields

<u>Tax</u>	<u>Rate</u>	<u>Annual Yield</u>
Gas Tax	5-cents per gallon	\$100 million
Tolls on New Highway Facilities	\$1 per trip	\$20-40 million per facility
Sales Tax	1 percent	\$400 million
Income Tax	1 percent	\$900 million
Payroll Tax	\$6 per employee per month	\$200 million

Source: A System in Crisis MWCOG (February, 2001). All of the above taxes/fees would be required to generate \$1.74 billion more each year, which is the region's unfounded needs to achieve its Vision Plan. It is estimated that about 43 percent of the total yields above would come from Northern Virginia.

costing drivers in the Washington metropolitan area 46 hours of traffic delay per person in 1999 (valued at \$780 per person per year).

To achieve MWCOG's Vision Plan, \$1.74 billion more per year is needed over the next 25 years (87-cents per gallon gas tax or 4.4 percent sales tax or 1.9 percent income tax). While these amounts are enormous, consider that the costs of congestion are \$3 billion per year in the Washington Metropolitan region. The public choice amounts to spending less than \$2 billion more each year for transportation facilities to avoid \$3 billion in congestion costs each year.

In addition to raising more revenues from regional and local taxes, available revenues can be increased by improving the shares of revenue from other levels of government that flow here. Examples include the successes in ISTEA and TEA-21, in which discrepancies between donor and recipient states were narrowed and Virginia received several millions of dollars of additional federal aid each year because more of the federal taxes collected here were returned. For example, TEA-21 requires each state to receive from FHWA no less than 90 percent of the federal gas taxes collected there. Similarly, if Northern Virginia's share of state aid were to grow along with its traffic congestion, tens of millions of dollars would shift to this region each year from elsewhere in the commonwealth.

There are many other potential sources of regional and local revenue that could be considered for transportation projects, including taxes on: energy use, inflation-adjusted motor fuels, rental cars, congestion, development and impacts thereof, emissions, and vehicle miles traveled. Staff of MWCOG/TPB has estimated that a regionwide \$1 per space per day surcharge on parking would yield \$1 billion over the next three years. It would require a 50-cent gas tax plus a 2.5 percent sales tax plus a 1.1 percent income tax to yield \$1 billion annually.

In Resources for the Future Issue Brief 02-35 (October, 2002), Is Northern Virginia Voting on the Right Transportation Tax, authors Peter Nelson *et al.* estimate pricing of freeways and arterials would yield up to \$700 million annually and increasing local property tax rates from an average of 1.15 percent to an average of 1.22 percent would yield \$140 million annually.

Other Regional Sources

Several regional agencies occasionally obtain federal or state funds for specific transportation purposes. For example, the Northern Virginia Regional Commission has obtained two FTA grants to study the before and after land use implications of VRE. Two more specific examples follow.

MWCOG/TPB

State agencies (VDOT, VDRPT) also provide federal planning funds (from FHWA and FTA) to the Metropolitan Washington Council of Governments/Transportation Planning Board. These funds, primarily for planning, can be programmed to support transit projects. For example, MWCOG conducts periodic traffic counts used to determine the shares of commuters using transit, HOV and other modes.

ITS Implementation Institute

A consortium of three Virginia universities (George Mason, Virginia Tech, Virginia) received authorizations under TEA-21 of about \$2 million annually for FY 1998-03. These grants to university-based transportation centers require a 50 percent match. Among the areas of special expertise are project evaluations. Contact: John Collura of Virginia Tech at (703) 538-8457.

LOCAL FUNDING SOURCES

Funders of Last Resort

Local governments receive allocations from some of the federal, state and regional sources described above and can choose whether to use some of these funds to support transit. And to the extent that WMATA and VRE receive funding from federal and other sources, local governments (as "funders of last resort") have lower subsidies. As shown above in **Figure 4**, statewide in Virginia, localities are providing about \$116.5 million in FY 2004 to offset operating costs of transit, with Northern Virginia transit systems paying \$82.7 million. For transit capital costs, Northern Virginia's localities are providing \$36.3 million out of \$41.2 million statewide. Combined, Northern Virginia local governments pay 75 percent of total statewide local funds for transit as of FY 04. NVTC's local governments are paying a total local share of about 27 percent for transit operations and capital, or 56 percent of the non-federal share net of operating revenues. The state target for this local share is only five percent, so Northern Virginia is forced to exceed the target by a factor of over 10.

Northern Virginia's local governments use the proceeds of property taxes and license fees, plus local bonds, to pay their shares of transit project costs. Northern Virginia's local governments have already issued \$800 million in bonds to pay for transit and highways. Local property taxes on automobiles were being phased out with other state revenues being provided to local governments to offset their losses, until a severe state budget crisis interrupted the process. This crisis places pressure on state transit funding and shifts the burden of financing transit ever more heavily to local governments that are experiencing their own severe funding crises.

In constructing the WMATA Metrorail system and paying for the authority's other capital investments, local governments paid four percent of the \$10 billion total while the Commonwealth of Virginia paid only three percent. Maryland's entire nine percent share was paid by the state and the District of Columbia paid nine percent. For WMATA operations, Virginia's local governments paid eight percent and the state paid five percent. Combined, the Virginia local/state ratio is 60/40. This information is shown in WMATA's strategic plan (Routes to the Future: A Strategic Plan, 2002, at 24).

On the subject of local effort, data from VDRPT show that NVTC's jurisdictions paid \$125.91 per capita per year for transit from local funds as of FY 2000. No other jurisdiction in the commonwealth paid more than \$30 per capita.

Because local governments in Northern Virginia face such constrained revenue sources, transit systems relying heavily on local funding must constantly strive to keep the level of local subsidies from growing. VRE, for example, went from FY 1997 through FY 2003 without any increase in local subsidy (\$5.8 million annually) despite soaring ridership and accelerating operating costs imposed by

VRE's contract operator (Amtrak) and its host railroads (CSXT, Norfolk Southern). During those years the level of annual subsidy was less than in the year VRE began operations (FY 1993).

Property taxes are the chief source of income for most Northern Virginia localities as shown in **Figure 17**. Transit increases the tax base of local communities as well as the state. For example, Arlington's Orange Line corridor has eight percent of the county's land but accounts for a third of its real estate tax base. Washington Post (6/29/03) at C-4.

As mentioned previously, Northern Virginia's November, 2002 referendum to secure a half cent sales tax for transportation was defeated 55 to 45 percent, with only Arlington, Alexandria and Falls Church providing majority "yes" votes. A March, 2001 research report from the Institute of Transportation Studies at the University of California at Berkeley examines the limited extent to which states have provided to local (or regional) governments the power to collect new transportation revenues at local option. During the decade of the 1970's, several localities received authority to enact permanent taxes to fund their transit systems (using such mechanisms as mortgage recording fees, payroll and sales taxes). In 1980, NVTC received its authority to use the proceeds of a two percent motor fuels tax to help its local jurisdictions pay the costs of operating WMATA's Metrorail and Metrobus transit systems. By the 1980's, however, most new taxes of this sort were of limited duration, required prior approval by local voters, and were used to fund specific capital improvements.

Currently in only 10 states have localities enacted local option fuel taxes. Only three of these required prior voter approval. Taxes or license fees imposed on motor vehicles are more widely used, with local option levies permitted in 33 states. In not all of these states have localities acted and in some states levies on the value of automobiles are being phased out (including Virginia). Ten states allow local option dedicated property taxes for transit and 33 states allow local option sales taxes. Fifteen states allow local option income or payroll taxes, but in only five have some localities acted to impose these taxes. Other examples include severance taxes imposed on natural resource extraction, food and lodging taxes, real estate transfer fees and development impact levies. Local options for one or more of these are permitted in five states.

Based on this research, the typical per capita annual revenues from these various local option taxes are:

- Fuel (at five cents per gallon) = \$20 – 35
- Vehicle (at \$10 per vehicle) = \$7 – 8.50
- Property (at five mills) = \$30 – 300
- Sales (at 0.5 percent) = \$40 – 70
- Income/Payroll (at 0.25 percent) = \$30 - 60

Compare these amounts to Northern Virginia's existing local effort of \$126 per capita, primarily from property taxes.

Figure 17

Northern Virginia Property Tax Revenues

<u>Jurisdiction</u>	Property Tax <u>Revenues</u> (\$ Millions)	Property Tax As % of Total <u>Budget</u>
Alexandria	\$ 177	48%
Arlington	280	45
Fairfax County	1,400	59
Loudoun County	320	43
Prince William County	276	60
Spotsylvania County	69	24
Stafford County	77	23

Source: Washington Post (2/23/03) at A26. Revenue is for FY 2003, except data for Loudoun, Spotsylvania and Stafford counties are for FY 2004.

State Role in the Transit Funding Crisis

Throughout this report, two important themes have emerged. First, overall transit funding resources, while diverse, are grossly inadequate. Second, in Northern Virginia compared to its neighbors in Maryland and throughout the rest of the commonwealth, citizens here must bear a disproportionate financial burden versus the other financial partners.

The following series of five figures (**Figure 18-22**) quantifies the funding partners' shares from FY 2004 back through FY 2001. During that time, Northern Virginia's local governments have paid over two-fifths of total non-federal transit operating and capital costs, or two-thirds if passenger fares are included as a local contribution. Note that the information regarding levels of effort by funding partners varies somewhat from **Figure 4** above because Figure 4 includes PRTC while Figures 18-22 address NVTC members only. The state proportion is approximately equal to the local share when excluding passenger fares and well below—at less than a third—if passenger fares are included. This is true even though the General Assembly has established a target of 95 percent for the state share (which is still lower than its target for highway funding).

As shown above in **Figure 6**, the failure of the commonwealth to meet its own obligations will cost NVTC's local governments \$83 million in FY 2004 alone. Since the state also prevents local governments from using most possible revenue sources other than the regressive property tax, the burden imposed on local governments is magnified. As a result, local transit subsidies have grown within NVTC's district by 41 percent to \$79 million in FY 2004 from \$56 million in FY 2001. During that same period, total state aid grew to \$84 million from \$73 million, or 15 percent.

Figure 18

**Projected Fiscal Year 2004 Northern Virginia Transportation Commission
Jurisdictions Transit Expenditures for Operations and Capital by Source
(\$ in millions)**

Jurisdiction	WMATA OPERATING AND CAPITAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total		Total Funds	% Local Funds	% Regional Funds	% State Funds
		Regional Gas Tax	State Aid	State Aid	State Aid	State Aid				
Alexandria	\$ 10.7	\$ 1.9	\$ 8.2	\$ 1.1	\$ 9.3	\$ 21.9	48.9%	8.7%	42.5%	
Arlington	19.2	1.9	13.7	2.1	15.8	36.9	52.0%	5.1%	42.8%	
City of Fairfax	(0.4)	0.9	0.6	-	0.6	1.1	-36.4%	81.8%	54.5%	
Fairfax County	26.0	11.8	26.7	3.3	30.0	67.8	38.3%	17.4%	44.2%	
Falls Church	0.4	0.5	0.5	0.1	0.6	1.5	26.7%	33.3%	40.0%	
Loudoun County	-	-	-	-	-	-	0.0%	0.0%	0.0%	
Passenger / Other Revenue	55.9	17.0	49.7	6.6	56.3	129.2	43.3%	13.2%	43.6%	
	118.9	-	-	-	-	118.9	100.0%	0.0%	0.0%	
	\$ 174.8	\$ 17.0	\$ 49.7	\$ 6.6	\$ 56.3	\$ 248.1	70.5%	6.9%	22.7%	

Jurisdiction	LOCAL TRANSIT OPERATING AND CAPITAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total		Total Funds	% Local Funds	% Regional Funds	% State Funds
		Regional Gas Tax	State Aid	State Aid	State Aid	State Aid				
Alexandria	\$ 3.7	\$ -	\$ 2.3	\$ -	\$ 2.3	\$ 6.0	61.7%	0.0%	38.3%	
Arlington	3.5	-	2.4	-	2.4	5.9	59.3%	0.0%	40.7%	
City of Fairfax	1.5	-	0.9	0.3	1.2	2.7	55.6%	0.0%	44.4%	
Fairfax County	14.1	-	9.4	6.7	16.1	30.2	46.7%	0.0%	53.3%	
Falls Church	-	-	-	-	-	-	0.0%	0.0%	0.0%	
Loudoun County	(2.6)	3.5	-	5.9	5.9	6.8	-38.2%	0.0%	86.8%	
Passenger / Other Revenue	20.2	3.5	15.0	12.9	27.9	51.6	39.1%	6.8%	54.1%	
	7.6	-	-	-	-	7.6	100.0%	0.0%	0.0%	
	\$ 27.8	\$ 3.5	\$ 15.0	\$ 12.9	\$ 27.9	\$ 59.2	47.0%	5.9%	47.1%	

Jurisdiction	VRE LOCAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total		Total Funds	% Local Funds	% Regional Funds	% State Funds
		Regional Gas Tax	State Aid	State Aid	State Aid	State Aid				
Alexandria	\$ 0.1	\$ -	\$ -	\$ -	\$ -	\$ 0.1	100.0%	0.0%	0.0%	
Arlington	0.1	-	-	-	-	0.1	100.0%	0.0%	0.0%	
Fairfax County	3.0	-	-	-	-	3.0	100.0%	0.0%	0.0%	
	\$ 3.2	\$ -	\$ -	\$ -	\$ -	\$ 3.2	100.0%	0.0%	0.0%	

Jurisdiction	TOTAL OPERATING AND CAPITAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total		Total Funds	% Local Funds	% Regional Funds	% State Funds
		Regional Gas Tax	State Aid	State Aid	State Aid	State Aid				
Alexandria	\$ 14.5	\$ 1.9	\$ 10.5	\$ 1.1	\$ 11.6	\$ 28.0	51.8%	6.8%	41.4%	
Arlington	22.8	1.9	16.1	2.1	18.2	42.9	53.1%	4.4%	42.4%	
City of Fairfax	1.1	0.9	1.5	0.3	1.8	3.8	28.9%	23.7%	47.4%	
Fairfax County	43.1	11.8	36.1	10.0	46.1	101.0	42.7%	11.7%	45.6%	
Falls Church	0.4	0.5	0.5	0.1	0.6	1.5	26.7%	33.3%	40.0%	
Loudoun County	(2.6)	3.5	-	5.9	5.9	6.8	-38.2%	51.5%	86.8%	
Passenger / Other Revenue	79.3	20.5	64.7	19.5	84.2	184.0	43.1%	11.1%	45.8%	
	126.5	-	-	-	-	126.5	100.0%	0.0%	0.0%	
	\$ 205.8	\$ 20.5	\$ 64.7	\$ 19.5	\$ 84.2	\$ 310.5	66.3%	6.6%	27.1%	

Figure 19

**Fiscal Year 2003 Northern Virginia Transportation Commission
Jurisdictions Transit Expenditures for Operations and Capital by Source
(\$ in millions)**

Jurisdiction	WMATA OPERATING AND CAPITAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total	Total Funds	% Local Funds	% Regional Funds	% State Funds	
		Regional Gas Tax	State Aid	State Aid	State Aid					
Alexandria	\$ 9.8	\$ 1.9	\$ 8.6	\$ 1.3	\$ 9.9	\$ 21.6	45.4%	8.8%	45.8%	
Arlington	19.9	2.0	13.9	2.4	16.3	38.2	52.1%	5.2%	42.7%	
City of Fairfax	(0.4)	0.9	0.6	-	0.6	1.1	-36.4%	81.8%	54.5%	
Fairfax County	30.8	12.0	28.1	9.1	37.2	80.0	38.5%	15.0%	46.5%	
Falls Church	0.3	0.5	0.5	0.1	0.6	1.4	21.4%	35.7%	42.9%	
Loudoun County	-	-	-	-	-	-	0.0%	0.0%	0.0%	
Passenger / Other Revenue	60.4	17.3	51.7	12.9	64.6	142.3	42.4%	12.2%	45.4%	
	111.8	-	-	-	-	111.8	100.0%	0.0%	0.0%	
	\$ 172.2	\$ 17.3	\$ 51.7	\$ 12.9	\$ 64.6	\$ 254.1	67.8%	6.8%	25.4%	

Jurisdiction	LOCAL TRANSIT OPERATING AND CAPITAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total	Total Funds	% Local Funds	% Regional Funds	% State Funds	
		Regional Gas Tax	State Aid	State Aid	State Aid					
Alexandria	\$ 3.2	\$ -	\$ 1.9	\$ -	\$ 1.9	\$ 5.1	62.7%	0.0%	37.3%	
Arlington	2.9	-	1.9	-	1.9	4.8	60.4%	0.0%	39.6%	
City of Fairfax	1.0	-	0.6	-	0.6	1.6	62.5%	0.0%	37.5%	
Fairfax County	12.7	-	10.5	6.5	17.0	29.7	42.8%	0.0%	57.2%	
Falls Church	-	-	-	-	-	-	0.0%	0.0%	0.0%	
Loudoun County	(3.4)	3.6	-	1.1	1.1	1.3	-261.5%	0.0%	84.6%	
Passenger / Other Revenue	16.4	3.6	14.9	7.6	22.5	42.5	38.6%	8.5%	52.9%	
	7.7	-	-	-	-	7.7	100.0%	0.0%	0.0%	
	\$ 24.1	\$ 3.6	\$ 14.9	\$ 7.6	\$ 22.5	\$ 50.2	48.0%	7.2%	44.8%	

Jurisdiction	VRE LOCAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total	Total Funds	% Local Funds	% Regional Funds	% State Funds	
		Regional Gas Tax	State Aid	State Aid	State Aid					
Alexandria	\$ 0.1	\$ -	\$ -	\$ -	\$ -	\$ 0.1	100.0%	0.0%	0.0%	
Arlington	0.1	-	-	-	-	0.1	100.0%	0.0%	0.0%	
Fairfax County	2.6	-	-	-	-	2.6	100.0%	0.0%	0.0%	
	\$ 2.8	\$ -	\$ -	\$ -	\$ -	\$ 2.8	100.0%	0.0%	0.0%	

Jurisdiction	TOTAL OPERATING AND CAPITAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total	Total Funds	% Local Funds	% Regional Funds	% State Funds	
		Regional Gas Tax	State Aid	State Aid	State Aid					
Alexandria	\$ 13.1	\$ 1.9	\$ 10.5	\$ 1.3	\$ 11.8	\$ 26.8	48.9%	7.1%	44.0%	
Arlington	22.9	2.0	15.8	2.4	18.2	43.1	53.1%	4.6%	42.2%	
City of Fairfax	0.6	0.9	1.2	-	1.2	2.7	22.2%	33.3%	44.4%	
Fairfax County	46.1	12.0	38.6	15.6	54.2	112.3	41.1%	10.7%	48.3%	
Falls Church	0.3	0.5	0.5	0.1	0.6	1.4	21.4%	35.7%	42.9%	
Loudoun County	(3.4)	3.6	-	1.1	1.1	1.3	-261.5%	276.9%	84.6%	
Passenger / Other Revenue	79.6	20.9	66.6	20.5	87.1	187.6	42.4%	11.1%	46.4%	
	119.5	-	-	-	-	119.5	100.0%	0.0%	0.0%	
	\$ 199.1	\$ 20.9	\$ 66.6	\$ 20.5	\$ 87.1	\$ 307.1	64.8%	6.8%	28.4%	

Figure 20

**Fiscal Year 2002 Northern Virginia Transportation Commission
Jurisdictions Transit Expenditures for Operations and Capital by Source
(\$ in millions)**

Jurisdiction	WMATA OPERATING AND CAPITAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total	Total Funds	% Local Funds	% Regional Funds	% State Funds	
		Regional Gas Tax	State Aid	State Aid	State Aid					
Alexandria	\$ 9.9	\$ 1.7	\$ 8.3	\$ -	\$ 8.3	\$ 19.9	49.7%	8.5%	41.7%	
Arlington	18.0	1.8	13.1	-	13.1	32.9	54.7%	5.5%	39.8%	
City of Fairfax	(0.5)	0.8	0.5	-	0.5	0.8	-62.5%	100.0%	62.5%	
Fairfax County	24.2	10.3	26.9	-	26.9	61.4	39.4%	16.8%	43.8%	
Falls Church	0.4	0.4	0.5	-	0.5	1.3	30.8%	30.8%	38.5%	
Loudoun County	-	-	-	-	-	-	0.0%	0.0%	0.0%	
Passenger / Other Revenue	52.0	15.0	49.3	-	49.3	116.3	44.7%	12.9%	42.4%	
	110.6	-	-	-	-	110.6	100.0%	0.0%	0.0%	
	\$ 162.6	\$ 15.0	\$ 49.3	\$ -	\$ 49.3	\$ 226.9	71.7%	6.6%	21.7%	

Jurisdiction	LOCAL TRANSIT OPERATING AND CAPITAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total	Total Funds	% Local Funds	% Regional Funds	% State Funds	
		Regional Gas Tax	State Aid	State Aid	State Aid					
Alexandria	\$ 2.8	\$ -	\$ 2.0	-	\$ 2.0	\$ 4.8	58.3%	0.0%	41.7%	
Arlington	1.8	-	1.3	-	1.3	3.1	58.1%	0.0%	41.9%	
City of Fairfax	1.7	-	1.3	-	1.3	3.0	56.7%	0.0%	43.3%	
Fairfax County	13.5	-	10.2	5.7	15.9	29.4	45.9%	0.0%	54.1%	
Falls Church	-	-	-	-	-	-	0.0%	0.0%	0.0%	
Loudoun County	(2.3)	3.6	-	3.1	3.1	4.4	0.0%	0.0%	70.5%	
Passenger / Other Revenue	17.5	3.6	14.8	8.8	23.6	44.7	39.1%	8.1%	52.8%	
	7.4	-	-	-	-	7.4	100.0%	0.0%	0.0%	
	\$ 24.9	\$ 3.6	\$ 14.8	\$ 8.8	\$ 23.6	\$ 52.1	47.8%	6.9%	45.3%	

Jurisdiction	VRE LOCAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total	Total Funds	% Local Funds	% Regional Funds	% State Funds	
		Regional Gas Tax	State Aid	State Aid	State Aid					
Alexandria	\$ 0.1	\$ -	\$ -	\$ -	\$ -	\$ 0.1	100.0%	0.0%	0.0%	
Arlington	0.1	-	-	-	-	0.1	100.0%	0.0%	0.0%	
Fairfax County	2.5	-	-	-	-	2.5	100.0%	0.0%	0.0%	
	\$ 2.7	\$ -	\$ -	\$ -	\$ -	\$ 2.7	100.0%	0.0%	0.0%	

Jurisdiction	TOTAL OPERATING AND CAPITAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total	Total Funds	% Local Funds	% Regional Funds	% State Funds	
		Regional Gas Tax	State Aid	State Aid	State Aid					
Alexandria	\$ 12.8	\$ 1.7	\$ 10.3	\$ -	\$ 10.3	\$ 24.8	51.6%	6.9%	41.5%	
Arlington	19.9	1.8	14.4	-	14.4	36.1	55.1%	5.0%	39.9%	
City of Fairfax	1.2	0.8	1.8	-	1.8	3.8	31.6%	21.1%	47.4%	
Fairfax County	40.2	10.3	37.1	5.7	42.8	93.3	43.1%	11.0%	45.9%	
Falls Church	0.4	0.4	0.5	-	0.5	1.3	30.8%	30.8%	38.5%	
Loudoun County	(2.3)	3.6	-	3.1	3.1	4.4	0.0%	0.0%	70.5%	
Passenger / Other Revenue	72.2	18.6	64.1	8.8	72.9	163.7	44.1%	11.4%	44.5%	
	118.0	-	-	-	-	118.0	100.0%	0.0%	0.0%	
	\$ 190.2	\$ 18.6	\$ 64.1	\$ 8.8	\$ 72.9	\$ 281.7	67.5%	6.6%	25.9%	

Figure 21

**Fiscal Year 2001 Northern Virginia Transportation Commission
Jurisdictions Transit Expenditures for Operations and Capital by Source
(\$ in millions)**

Jurisdiction	WMATA OPERATING AND CAPITAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total	Total Funds	% Local Funds	% Regional Funds	% State Funds	
		Regional Gas Tax	State Aid	State Aid	State Aid					
Alexandria	\$ 8.8	\$ 1.8	\$ 8.7	\$ -	\$ 8.7	\$ 19.3	45.6%	9.3%	45.1%	
Arlington	18.5	2.3	14.6	-	14.6	35.4	52.3%	6.5%	41.2%	
City of Fairfax	(0.7)	1.0	0.5	-	0.5	0.8	-87.5%	125.0%	62.5%	
Fairfax County	19.1	12.1	31.4	-	31.4	62.6	30.5%	19.3%	50.2%	
Falls Church	0.1	0.6	0.5	-	0.5	1.2	8.3%	50.0%	41.7%	
Loudoun County	-	-	-	-	-	-	0.0%	0.0%	0.0%	
Passenger / Other Revenue	45.8	17.8	55.7	-	55.7	119.3	38.4%	14.9%	46.7%	
	108.7	-	-	-	-	108.7	100.0%	0.0%	0.0%	
	\$ 154.5	\$ 17.8	\$ 55.7	\$ -	\$ 55.7	\$ 228.0	67.8%	7.8%	24.4%	

Jurisdiction	LOCAL TRANSIT OPERATING AND CAPITAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total	Total Funds	% Local Funds	% Regional Funds	% State Funds	
		Regional Gas Tax	State Aid	State Aid	State Aid					
Alexandria	\$ 2.8	\$ -	\$ 2.5	\$ -	\$ 2.5	\$ 5.3	52.8%	0.0%	47.2%	
Arlington	0.6	-	0.9	-	0.9	1.5	40.0%	0.0%	60.0%	
City of Fairfax	0.7	-	0.7	-	0.7	1.4	50.0%	0.0%	50.0%	
Fairfax County	6.7	-	7.1	4.0	11.1	17.8	37.6%	0.0%	62.4%	
Falls Church	-	-	-	-	-	-	0.0%	0.0%	0.0%	
Loudoun County	(2.9)	3.4	-	1.6	1.6	2.1	0.0%	0.0%	76.2%	
Passenger / Other Revenue	7.9	3.4	11.2	5.6	16.8	28.1	28.1%	12.1%	59.8%	
	7.5	-	-	-	-	7.5	100.0%	0.0%	0.0%	
	\$ 15.4	\$ 3.4	\$ 11.2	\$ 5.6	\$ 16.8	\$ 35.6	43.3%	9.6%	47.2%	

Jurisdiction	VRE LOCAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total	Total Funds	% Local Funds	% Regional Funds	% State Funds	
		Regional Gas Tax	State Aid	State Aid	State Aid					
Alexandria	\$ 0.1	\$ -	\$ -	\$ -	\$ -	\$ 0.1	100.0%	0.0%	0.0%	
Arlington	0.1	-	-	-	-	0.1	100.0%	0.0%	0.0%	
Fairfax County	2.4	-	-	-	-	2.4	100.0%	0.0%	0.0%	
	\$ 2.6	\$ -	\$ -	\$ -	\$ -	\$ 2.6	100.0%	0.0%	0.0%	

Jurisdiction	TOTAL OPERATING AND CAPITAL SUBSIDIES									
	Local Funds	NVTC Aid		Direct	Total	Total Funds	% Local Funds	% Regional Funds	% State Funds	
		Regional Gas Tax	State Aid	State Aid	State Aid					
Alexandria	\$ 11.7	\$ 1.8	\$ 11.2	\$ -	\$ 11.2	\$ 24.7	47.4%	7.3%	45.3%	
Arlington	19.2	2.3	15.5	-	15.5	37.0	51.9%	6.2%	41.9%	
City of Fairfax	-	1.0	1.2	-	1.2	2.2	0.0%	45.5%	54.5%	
Fairfax County	28.2	12.1	38.5	4.0	42.5	82.8	34.1%	14.6%	51.3%	
Falls Church	0.1	0.6	0.5	-	0.5	1.2	8.3%	50.0%	41.7%	
Loudoun County	(2.9)	3.4	-	1.6	1.6	2.1	0.0%	0.0%	76.2%	
Passenger / Other Revenue	56.3	21.2	66.9	5.6	72.5	150.0	37.5%	14.1%	48.3%	
	116.2	-	-	-	-	116.2	100.0%	0.0%	0.0%	
	\$ 172.5	\$ 21.2	\$ 66.9	\$ 5.6	\$ 72.5	\$ 266.2	64.8%	8.0%	27.2%	

Figure 22

Jurisdictions Transit Expenditures for Operations and Capital by Source Notes and Assumptions for Figures 18 - 21

- State operating and capital assistance is allocated among the jurisdictions using NVTC's SAM factors in place for each fiscal year.
- State operating assistance is the actual amount contracted and recognized during a fiscal year.
- State operating assistance is allocated between WMATA subsidies and local systems using the percentage of WMATA operating subsidies and local system deficits to the total operating requirements.
- State capital assistance for WMATA subsidies is the actual amount invoiced and collected during the fiscal year. State capital assistance for local needs is the amount contracted for the fiscal year.
- Regional gas tax is the Motor Vehicle Fuels Sales tax collected during the fiscal year. For all jurisdictions except Loudoun County, the revenue is allocated using the gas tax percentages from NVTC's SAM in place for the fiscal year. For Loudoun County the actual revenue collected based upon the point of sale is recognized.
- The regional gas tax for Loudoun County is shown as a source of funds for their local systems, however the revenue may be used for any transportation purposes. For the other jurisdictions, regional gas tax may be used only for WMATA subsidies.
- Direct state aid is assistance that was not allocated by NVTC's SAM formula and that was not received by NVTC, but rather directly by the jurisdictions or WMATA. VTA funds received by WMATA are recognized as they are authorized for draw down by the jurisdictions. Other direct state assistance is the amount contracted or budgeted for the fiscal year and may include federal funds administered by DRPT.
- WMATA capital and operating subsidies are those actually billed during the fiscal year. Local system deficits are based upon the fiscal year budgeted activities.
- VRE local subsidies include only the subsidies paid by the local jurisdictions to VRE.

REVENUES FROM PROJECTS AND BENEFICIARIES

Share of Overall Project Funding

Transit projects themselves can deliver future benefits that can be captured to help finance the projects. Examples are user fees such as fares or tolls, high occupancy tolls (HOT) lane pricing, ITS information services, sale of naming rights, joint development payments, and parking fees. Special taxation districts and benefits assessment districts can be created to institutionalize these streams of revenue.

APTA reports that of the \$9.6 billion of transit capital funding in FY 2000, 27 percent was directly generated by the transit system. The remaining shares of funding were 47 percent federal, 15 percent local and 11 percent state assistance. The directly generated category is by far the fastest growing (up by 1,253 percent since 1990).

Throughout the Washington metropolitan region from 1990 to 2000, transit riders (unlinked trips) rose 0.4 percent (rail up 20.8 percent and bus down 18.9 percent); passenger miles by transit rose 12.1 percent (rail up by 24.7 percent and bus down by 10.2 percent); and fare revenues rose 34.2 percent (rail up by 51.1 percent and bus up 4.8 percent).

Average farebox recovery rates (share of operating costs covered by fares) were about 42 percent for transit systems operating in metropolitan areas over one million in population in 2000 (and about 20 percent in smaller areas). Accordingly, transit operating revenues are not a prime source to help fund new systems, but advertising revenue can provide a contribution. For example, in Chicago advertising signs on the outside of buses yield \$260 per bus per month and wrapped buses (entirely covered with a theme ad) yield \$7,000 per bus per month.

Joint development revenues can also contribute to the financial health of a transit system. The Virginia Transit Association has called on the commonwealth and its localities to do more to promote such projects, including:

- State-subsidized loans to developers of transit-friendly and joint development projects;
- Tax credits for employer-provided transit passes;
- Real property investment tax credits;
- State “brownfield” assessment and clean up funding;
- Streamlining of local zoning and approval processes;
- Tax increment financing.

In addition to fare and project revenues, transit systems must leverage financial resources through borrowing and innovative finance. A new research report gives a detailed description of financing techniques available to sponsors of public transit projects. It is: [Financing Capital Investment: A Primer for the Transit Practitioner](#).

TCRP Report 89 (2003). It is available online at: www4.trb.org/trb/onlinepubs.nsf/web/TCRP_reports. The report contains a glossary (pp.144-168) and listing of literature and resources (pp.169-172). Among the sites listed are: TRB's innovative finance clearinghouse (www.innovativefinance.org) and FHWA's site (www.fhwa.dot.gov/innovativefinance/sib.htm).

The report categorizes four types of financing:

- Debt
- Capital leases
- Equity partnerships (including subsidized vendor financing)
- Credit enhancement (such as bond insurance, letters or lines of credit, government guarantees used in combination with the others)

Examples of Beneficiary Funding Methods

Special Transportation, Benefits Assessment and Taxation Districts

Virginia statutes permit several types of districts to be formed with the potential for generating revenues. For example, transportation districts contiguous to NVTC can levy a two percent motor fuels tax. Special taxation districts (such as that for Route 28) can through referendum establish levies. They have other powers (eminent domain, access to the commonwealth's credit) but these powers are constrained (cap on tax rate, restrictions on types of property, land use protections).

The Route 28 district has yielded \$139 million (varying from \$4 to \$8 million annually) since 1989. The district includes about 828 structures with 16.7 million square feet and improved assessments of \$1.1 billion and land assessed at \$0.8 billion. Population is 97,000 and employment 63,000.

In 2001, the General Assembly amended the statutes to permit a higher tax rate in the Dulles Corridor when (and if) a new district is created there.

Transit projects create value in many ways. A 1994 study by KPMG Peat Marwick for NVTC found that the commonwealth's investments in Metrorail created returns by generating new economic activity focused on the transit system and its customers. Conservative estimates of the commonwealth's returns were 12.4 percent annually from 1978 through 1994 and 19.2 percent annually from 1995 through 2010. These returns are realized through increased state tax collections, including sales, personal and corporate income and recordation. With returns of this magnitude, local governments in Northern Virginia believe that the commonwealth should at least make it easier for localities to capture more of the economic benefits (some are realized through local property taxes) to support additional transit investments.

Sale of Assets

Transit systems are allowed to retain all income and proceeds from sale or lease of real estate acquired with federal assistance and to use the funds for transit-related expenditures. WMATA has established a Transit Infrastructure Investment Fund for such uncommitted proceeds, to be used to support joint development activities. Funds will be allocated among jurisdictions using the rail construction formula.

Joint Development

One rule of thumb is that about eight percent of the assessed value of a jointly developed project at a transit station could be captured by the transit system and used to help finance the transit portion of the project (e.g. new stations in the Dulles Corridor). Since March 14, 1997, FTA has permitted joint development project revenues to be freely usable by transit systems for eligible purposes, as long as the transit system retains some assurance that the joint development will be accessible to the transit system for the life of the project.

Partnership Contributions

Partnerships with the private sector can be classified into several categories, including:

- Build/Transfer
- Build/Operate
- Design/Build/Operate/Maintain
- Design/Build/Operate/Maintain/Fund (known as “Super Turnkey”).

Private and non-profit partners may have their own revenue sources that can be used to build portions of the transit capital project. For example, the Metropolitan Washington Airports Authority (MWAA) has access to Passenger Facility Charges at Dulles Airport that can be used (in the future since current revenues are already pledged for debt service on previous airport improvements) to pay for the portion of the Dulles Corridor Rapid Transit project that will be constructed on the airport.

Developers may agree to proffer some transit improvements as a condition of zoning changes or special use permits. These proffers can be combined or enhanced by the transit system in a partnership.

Design-build-operate-maintain (or some combination thereof) contracts for major transit projects offer the potential to reduce the costs for a transit agency compared to more traditional separate procurements or use of in-house staff. Further, such groups may be in a position to offer contributed equity (such as developers who donate land for stations since their remaining land will become more valuable due to access to the new transit improvements).

One novel proposal called for businesses to voluntarily give up tax credits for the value of stock options that are exercised by employees and officers. During more prosperous times for “dotcom” companies in Northern Virginia, it was estimated that this measure could yield \$60-70 million per year to be used for new transportation, a portion of which would be transit projects.

While partners may not be willing to donate equity to a transit project, they may be large corporate entities able to forego immediate returns by lending funds at favorable rates for mutually beneficial projects.

Sale of Naming Rights and Other Advertising Revenues

Transit improvements that serve to congregate large numbers of people can be very valuable and generate offers of millions of dollars for naming rights. To a lesser extent advertising access (on transit vehicles or at stations) can also generate significant revenues. Since transit systems operate at deficits, such advertising revenue is typically not available to support capital improvements, but in concept a future multi-year flow of advertising revenue from a new facility could be capitalized to support construction.

Sale of Access for Fiber Optics and Other Communications Revenues

Transit corridors can provide valuable access for fiber optic cables, especially in dense urban areas. Other ITS-related improvements can also yield project revenues, although again these are more likely to be used to support operating budgets. Examples are variable advertising on in-station or bus stop message signs, advertising on customer e-mail and fax alerts, and joint sponsorship and co-marketing of smartcard fare media with financial institutions.

Bay Area Rapid Transit (BART) considered a proposal from a communications company to pay \$1 million per year to wire BART’s tunnels to permit use of cell phones. The firm would then sell access to providers of cell phone service. Several of BART’s customers have objected to the “noise pollution” this would generate inside the trains and BART has agreed to conduct public hearings before going ahead with the transaction.

Donated Rights-of-Way

Contributions of land, buildings and bridges can be used to provide local matching funds for federal grants. St. Louis financed its Metrolink light rail project with such contributions valued at as much as \$100 million, thereby constructing an almost \$1 billion project with virtually no non-federal cash outlays. In the Dulles Corridor, the Metropolitan Washington Airports Authority is providing access to very valuable right-of-way for the rapid transit project. Prince William County is donating land for VRE parking at Woodbridge to serve as the non-federal share of a VRE federal grant.

These types of matching contributions are sometimes called “in-kind” or “soft” matches. Another example is the use of state-collected toll revenues as a credit toward required non-federal matching shares of federal grants.

Consulting

Transit systems have offered their engineering expertise to others as a means to keep their staff fully employed. The potential exists for exchanges to help construct transit projects (e.g. trade engineering services to a city in exchange for land for a transit garage).

Fares, Tolls and Other Fees (Value Pricing)

Some amounts of money can be used to support new transit projects by imposing surcharges on current fares, with the proceeds escrowed for capital improvements. WMATA uses this approach by allowing surcharges on parking fees earmarked for debt service on new parking structures. Similarly, a portion of highway tolls (perhaps in the same corridor) can be reserved to build transit projects and thereby help overall mobility in that corridor. Some tolls from the Dulles Toll Road are earmarked to help build the Metrorail extension there.

Value pricing – also known as congestion or peak period pricing – can benefit transit systems. HOT lanes (high occupancy tolls) allow vehicles that do not meet the HOV restrictions to travel in a lane by paying a fee. The fee may vary with congestion levels, thereby making most efficient use of the facility and raising revenues that can be used for capital improvements. Transponders attached to vehicles permit drivers to maintain accounts for easy electronic billing. One challenge is to integrate electronic payment mechanisms for toll roads and transit systems (i.e. in the Washington metropolitan area VDOT’s SmarTag and WMATA’s SmarTrip cards are not compatible).

The Value Pricing Pilot Program of FHWA has been active in approaching state, regional and local jurisdictions about conducting seminars to introduce and explore value pricing concepts. Contact: Theresa.Smith@fhwa.dot.gov.

Such a seminar was conducted in Northern Virginia in early June, 2003, including presentations on such concepts as HOT lanes in San Diego (I-15) and Houston (I-10); paying for new lanes with tolls (Orange County, CA’s Route 91); managing congestion with variable tolls (New York’s Hudson River crossings); cordon charges in London; and parking cash out in Minnesota’s Twin Cities.

Patrick De Carla –Souza of FHWA has estimated in a Transportation Quarterly article that priced lanes on 200 miles of Washington D.C. – area highways could generate \$600 million in tolls per year and \$4 billion in net economic benefits. See the value pricing web-site at: www.valuepricing.org.

In a 2003 Resources for the Future publication, Are HOT Lanes a HOT Deal? The Potential Consequences of Converting HOV to HOT LNES IN northern Virginia, authors Elena Safirova et al. estimate an annual yield of \$40

million (less administrative costs of 15 percent) from fees of 20-cents per mile for single occupant vehicles on this region's HOV lanes.

Bonds can often be sold to finance parking structures at transit facilities with debt service covered by future parking fees.

Advance sale of long-term leases for concession space (day care, florist, dry cleaner) at transit facilities could generate some funds to help build the facility. The facility can be designed to accommodate more of such revenue-producing activities.

Virginia Public-Private Transportation Act

Virginia has a process established that permits private entities to make unsolicited proposals for transportation improvements together with an eligible government sponsor with a state selection panel convened and a negotiated award (after notice to allow potential competitors to come forward). Such proposals have been submitted for the Dulles Corridor project and for widening a portion of the I-495 capital beltway to include HOT lanes.

Tax Free Transit Benefits

With an April, 2000 Executive Order, President Clinton extended maximum benefits of \$65 per employee per month to federal employees in the Washington, D.C. area (and as a pre-tax option to federal employees elsewhere, later upgraded to match Washington D.C.). Congress later acted to increase the maximum amount to \$100, effective January 2002. Congress is now considering proposals to boost this benefit to \$180 per month to match tax-free parking benefits currently available.

Public and private employees now can provide up to \$100 monthly per employee for transit which is tax free to the employee and a tax write off to the employer as a business expense. Some states (e.g. Maryland) have similar programs to provide tax deductions or credits against state tax. In the Washington D.C. region, WMATA sells Metrocheks for those who receive this benefit.

With the availability of such a tax-friendly subsidy option, fare increases become more palatable as a means to help raise funds for transit capital projects.

Foundations/Trade Associations

In the private, non-profit sector, grants may be available to help define the need for the transit project, refine its scope and modify its design, perhaps through public outreach or research. For example, the Price Waterhouse Coopers Endowment for the Business of Government offers research grants (averaging \$15,000) and sponsors leadership forums (averaging \$20,000).

The Washington Regional Association of Grant Makers (WRAG) is a network of over 100 funders, partnering with non-profit organizations and governments. Resources for grant seekers include links to 7,000 non-profits, a common grant application form, tips and evaluation measures. Contact: www.washingtongrantmakers.org.

The American Public Transportation Association provides grants (\$5,000) to sponsor local transit coalitions. So far, 75 grants have been awarded totaling \$350,000, including 13 grants for FY 03. Applications for FY 2004 were due in early August, 2003. The emphasis is on non-partisan activities to support reauthorization of TEA-21. Contact Elissa Dodge at edodge@apta.com.

The Transportation Research Board has several research programs, such as the National Cooperative Transit Research Program, jointly funded by federal and state member agencies. Some funds are available on very short notice to commence important and practical research projects.

Another TRB resource is called the Transit IDEA program (Innovations Deserving Exploratory Analysis) with current emphasis areas including transit, high speed rail and ITS. Review cycles begin each March 1 and September 1. An example of an IDEA project is testing of new rail grade crossing guards employing video monitoring. The agency has almost \$1 million from FRA and FHWA to test ITS related IDEA projects. (Contact: Harvey Berlin, 202/334-3310, hberlin@nas.edu; www.nationalacademies.org/trb/idea).

The Great American Station Foundation

This non-profit organization provides grants in three categories ranging from \$2,500 to \$30,000, for preserving, restoring and improving local rail stations. A typical grant cycle resulted in \$250,000 awarded to 14 cities in July, 2001.

Community Transportation Development Fund

Loans are provided up to \$1 million on negotiable terms with low interest for private and government sponsors of projects that promote economic development in low-income areas. Contact: Patrick Kellogg at 202/661-0210 and www.ctaa.org.

Easter Seals Accessible Transit Projects

For FY 03 there was about \$1 million of FTA funding available in five award categories, with applications due in October, 2002. Grants primarily focused on training but also included research syntheses and database development for accessible taxis. Contact: Administrative Manager at 202-737-7914 and www.projectaction.org.

Forms of Creative Finance

Depending on the particular program, assistance may take the form of cash, credit or technical expertise (which can reduce overall project costs). Assistance in the form of credit may be direct loans or loan guarantees from a federal or state agency or the transit system could transform a future flow of cash assistance into current resources by borrowing. This latter approach is known by the acronyms GARVEE or FRAN (grant anticipation revenue vehicles and federal revenue anticipation notes, respectively).

Other (often very complex) techniques are available to provide a streamlined source of capital. One is a “**blind pool**”, in which a joint powers authority (such as NVTCT) would issue bonds to fund a pool and invest the proceeds in guaranteed investment contracts. A transit authority then could borrow from the pool with lower transaction costs and considerable time savings compared to issuing its own debt. Federally sponsored state infrastructure banks are a variation on this theme of revolving pools of credit.

Leveraged leases take many forms. **Certificates of participation, sale-leaseback, lease-leaseback** and others offer transit systems a return of some modest percentage of the value of the secured asset by engaging in complex transactions (with correspondingly stiff administrative and legal fees). **Cross-border leases** offer returns to transit systems based on tax savings to foreign corporations. **Safe-harbor leases** provided very favorable returns to U.S. transit systems through sale-leaseback transactions offering tax savings to U.S. corporations, but a change in the tax code eliminated this particular opportunity.

Volumes of such transactions have been substantial. For example, cross-border leases reviewed by FTA during 1988-2001 were \$1.2 billion, with a projected net benefit of \$44.6 million for a 3.6 percent average return. Domestic sale/lease-backs, also known as Pickle leases, were \$3.4 billion from 1994 through 2002, with \$222.7 million of benefits for a 6.6 percent average return. Total sale/lease-back transit transactions were approximately \$13 billion for an average net cash benefit of six percent. See TCRP Report 89 at 94.

The size of individual transactions such as certificates of participation can be as low as \$1.6 million for buses in Los Angeles to \$562 million by New Jersey Transit backed by a full funding grant agreement. (Ibid. at 64).

In 1998, the Chicago Transit Authority sold and leased back its entire Green Line, generating \$17 million. It may do the same for its Orange Line (\$9 million). San Francisco Muni generated \$35.5 million on a \$388.1 million railcar leasing transaction.

States are expecting substantial future returns from **settlements** with tobacco companies. These settlements would accrue to each state as a stream of payments; by borrowing against this stream (called “**securitization**”) states could fund transit projects now, with the logic that transit system improvements promote clean air and environmental health.

Transit systems need to examine their own pools of funds to be certain they are being used most efficiently. **Refinancing** may offer sufficient present value savings to cover the administrative costs of recalling and reissuing debt.

During 2001, about \$8 billion in transit bonds were issued, including \$2 billion of refinancings. This was typical of the preceding five years. See TCRP Report 89 at 37.

Sixteen of the largest transit systems have issued \$24 billion in outstanding debt, generally backed by dedicated revenue sources and rated A or AA. For a discussion of rating factors affecting transit agency debt, see "Running for the Train: The Path Ahead for U.S. Transit," by Fitch Ratings (June 16, 2003) available at www.fitchratings.com.

It may be possible to **borrow against escrow accounts or debt service reserve funds**. VRE purchased a surety to replace a \$10 million debt service reserve fund and thereby was able to use the previously inactive funds to match federal grants over a multi-year period.

As described above, NVTC has had success issuing "**appropriations-based debt**" on behalf of VRE. Without pledging any real assets and with a deficit-producing service (as are all transit systems), NVTC nonetheless has been able to borrow and (with the purchase of credit enhancement insurance) gain strong investment grade ratings, without jeopardizing its local government members' own bond ratings. To accomplish this NVTC and its advisors have demonstrated that VRE is performing an essential public service so that its members are likely to continue their voluntary annual contributions to keep VRE running and to fund its budget (including debt service).

Even more complex **derivatives** and **hedging transactions** can be used. An example is the use of **interest rate swaps** to produce synthetic advance refunding of outstanding bonds. The Metropolitan Washington Airports Authority has selected a team of advisors for such a transaction.

Since 1998 WMATA has closed tax-advantaged lease transactions on 680 railcars with net benefits of \$82 million. WMATA also has gained \$53 million in proceeds from refunding outstanding transit bonds. By so doing, it raised enough capital funds to avoid \$4 million in charges for exercising its TIFIA line of credit. The Authority is now developing a term sheet with two private leasing companies, with expectations of netting another \$20 million on its next series of railcars, depending on the timing of delivery and interest rates. Of the expected \$20 million, \$13 million has already been programmed for the purchase of new CNG buses.

In some cases, **vendor financing** will be available. The supplier may be willing to absorb some finance costs as a competitive device to help win the contract. Unless a foreign government is involved, the vendor may not be able to provide tax-advantaged leases or other credit, while the transit system may have

such access to tax-free instruments. Accordingly, experts will need to evaluate the benefits and costs of vendor finance compared to other possible concessions.

Transit systems, including VRE, continue to explore **lease in-lease out (lease-lease back)** transactions that offered returns of four to 10 percent of asset values for new and used rolling stock, buildings and other equipment. These can be fully defeased (all lease payments and the balance due on exercise of the final purchase option at the end of the lease term are funded with initial deposits held by a trustee). Transaction sizes are minimums of \$50 million with a maximum of \$500 million and \$250 million ideal, over a 35-year term. Transaction fees have averaged \$500,000.

VRE has not yet proceeded because it had funded most of its rolling stock with tax-exempt debt and bond counsel believed that IRS private activity regulations precluded these assets from eligibility. However, VRE is reexamining the situation and is asking for proposals from financial firms (as of mid-2003).

Other more complex transactions can also be pursued with the careful assistance of qualified financial advisors, such as **forward delivery of debt service payments**. Over a three to six year term an agreement is reached for the transit system to pay debt service six months early to a firm and they provide securities of the same value in return but of longer term and yielding higher interest than short term investments otherwise available to the transit system. Only if rates move sharply up (cutting the value of the long-term securities and offering more lucrative short term investments) are the gains eroded.

A new category of sale/leaseback may also have promise, in which **qualified technology equipment** (such as telecommunications networks, computer systems, fare collection equipment, train control and passenger information systems) is used. Because of accelerated depreciation, yields can be higher (e.g. 9 to 11 percent). FTA reports that the Bay Area Rapid Transit District has used this technique.

CONCLUDING POLICY CONSIDERATIONS

Twelve Lessons Learned

Among the lessons apparent from the description above of available revenue sources are:

- 1) Local governments and transit system users in Northern Virginia bear most of the burden of funding transit system operating and capital costs compared to their state and federal partners. The commonwealth of Virginia falls short compared to its neighboring state of Maryland in helping to pay for transit improvements and Northern Virginia's per capita transit expenditures far exceed those of any other urban area in the commonwealth.
- 2) The commonwealth also does not sufficiently fund its existing programs to meet statutory levels. NVTC jurisdictions will be underpaid by \$83 million in FY 2004, compared to actual state financial assistance to NVTC of only \$76 million.
- 3) Virginia has a state funding bias that favors highways over public transit assistance.
- 4) The commonwealth should make available to local governments more revenue enhancing techniques, since as funders of last resort for public transit, local subsidy costs are rising sharply compared to the other funding partners.
- 5) Federal and state gas taxes should be inflation adjusted. In the case of Virginia, the current 17.5 cents per gallon is less (when adjusted for inflation) than the 11 cents per gallon rate effective in 1984 and neighboring states now average 23.3 cents per gallon.
- 6) Of necessity, project beneficiaries must be asked to pay more in the form of user fees such as fares and tolls.
- 7) Aggressive leveraging limited financial aid must occur at all partnership levels to help reduce the serious and growing funding gap for transit projects.
- 8) While there is a diversity of federal, state and regional funding sources for transit projects, the amount of available funds is dwarfed by needs.
- 9) In the Washington metropolitan region, a dedicated source of transit funding is needed to keep pace with the rest of the country.

- 10) Given the enormous role of the federal government in this region (half of Metrorail peak riders are federal employees), the federal government must do its part to meet transit capital and security needs.
- 11) Financial plans for major new transit projects require enormous care to involve all stakeholders to build consensus for the required financial partnership. These plans must also be very flexible to anticipate and respond to changing opportunities (increased earmarks here, eliminated program there) amid overall increased competition for a funding base that isn't keeping up with growing needs.
- 12) Increased understanding is needed by the public of the nature of the transit funding partnership to permit informed choices about the best mix of financial resources to meet the mobility needs of the traveling public.

Concluding Examples

Figure 23 compiles the several sources of funding obtained by NVTC for one of its ongoing projects.

NVTC frequently patches together several grants from various sources over a period of time to complete financial plans for its transit capital projects. For example, a clean diesel neighborhood bus demonstration in Falls Church (known as GEORGE) received grant awards from several sources over an extended time. The financial plan needed to be innovative and flexible as conditions changed (e.g. hybrid-electric technology that was purchased from two separate vendors failed to perform).

Specific scopes of work were developed for each of the grants. For example, one grant focuses on the use of new technology. NVTC has used this grant to acquire bus stop enunciators to comply with the Americans with Disabilities Act and automated maintenance systems that are electronically probed each day to reveal the performance of key bus components.

Another example of a complex financial plan that evolves through time is that of the Dulles Corridor rail project. For estimated total costs of \$3.3 to \$3.7 billion, the general assumption is that federal resources will eventually cover half, Virginia will pay a quarter and local governments and the Metropolitan Washington Airports Authority will pay a quarter. For Fairfax County's anticipated share of over \$550 million over a 12-year horizon, a special taxation district may be formed with taxes of up to 40 cents per \$100 of assessed value on commercial properties. Loudoun County is considering a new public transportation fund paid in part by proceeds of local business and professional occupations license fees. Since the project is in its early stages the financial plan is certain to evolve further.

Figure 23

**Sources of Funds for NVTC's Falls Church Bus Project
Capital and Two-Year Operating Demonstration Costs**

<u>Fiscal Year</u>	<u>Agency</u>	<u>Source</u>	<u>Amount (Unmatched)</u>
1995	VDOT	Virginia Alternative Fuels Revolving Fund (VARF)	\$90,000
1998	VDOT	VARF	\$83,404
1998	FTA	Section 5309 via congressional earmark	\$390,879
1999	FTA	Section 5309 via congressional earmark	\$397,000
2001	FTA	Section 5309 via congressional earmark	\$250,000
1999	VDRPT	TEIF	\$310,900
1999	FTA/FHWA	Congestion Mitigation and Air Quality (CMAQ)	\$564,000
1999	Virginia Power	In-kind for electric charger	\$100,000
1999	WMATA	In-kind for staff and engineering consultants	\$100,000
2000-2002	Falls Church	\$40,000 per year	\$120,000
1998-2002	NVTC	In-kind	\$ 60,000

The project itself may need to be completed in stages, which could affect the timing of the contributions by the various partners. In July, 2003, VDRPT announced a revised plan that would first extend Metrorail through Tysons Corner past Wiehle Avenue in Reston for about \$1.5 billion. Federal appropriations have already reached \$142 million and another \$100 million is needed for each of the next six years for a 50 percent federal share. The 11-mile segment could begin construction by 2005 if funding is obtained. Other sources include doubling tolls on the Dulles Toll Road.

Both examples reveal that obtaining funds for transit projects requires creativity, aggressiveness and resilience, in addition to a solid knowledge of potentially available program sources.

Comments and Questions

NVTC would appreciate comments on this resource guide. Contact us with comments or to request further information at nvtc@nvtc.org. See also www.thinkoutsidethecar.org.