

CHAPTER 3

FUNDING OPTIONS & CONSTRAINTS

This chapter provides an overview of transportation funding and detail for identified sources traditionally available for transportation projects. The SCTA recognizes the need to implement projects and programs well beyond the historical range of transportation projects in order to meet new and existing goals, particularly those of emission reduction. This imperative is beginning to be addressed at all levels of government and is anticipated to translate into additional resources at the local level, yet, as of this writing, the exact type and timing of new resources is unknown.

For purposes of planning, the 2009 CTP assumes a level of funding will be made available over the life of the plan based on knowledge of existing transportation funding sources, assumptions about growth in those available revenues and, to a limited degree, potential new sources. The 2009 CTP is constrained by that estimate and the prioritized list of projects must fit within the forecasted funding in order to present a reasonable assessment of what can be accomplished over the life of the plan. Existing and projected revenues will not meet all of our needs, but the SCTA has a long-standing history of supporting efforts at the local, State and federal level to maximize efficiencies related to providing transportation

improvements as well as efforts to increase funding for transportation

In transportation, difficult funding challenges constantly arise when decision-makers are faced with having to choose between system maintenance and rehabilitation versus system expansion. An added complexity is that project sponsors must try to match up the requirements of the various fund sources with the projects of greatest importance.

The system of funding transportation is complicated and cumbersome due in large part to ever evolving policies and priorities that seek to meet the demands of varying interests and concerns as it relates to transportation improvements. This has sometimes led to restricting funds to specific kinds of projects (e.g., safety or bridge rehabilitation) or specific modes of travel. Some key points to keep in mind about existing transportation funds include:

- Funds are often dedicated to specific uses, e.g., gas tax funds cannot be used to pay for the operation of a new bus route.
- Some funds are automatically apportioned through formulas to various recipients, whereas some are discretionary with respect

to the recipient or the types of projects they can be spent on.

- Most funding mechanisms do not automatically change due to inflation in prices and thus often do not keep up with the cost of doing business. For example, the prices of materials used in highway construction—steel, concrete, and asphalt—have risen dramatically without a corresponding increase in gas tax revenues. Fuel prices have spiked, yet transit operators must try to run the same routes on the same budgets.
- Virtually all funding sources for transportation are “matching programs” in that they will not fully fund a project and require contributions from other sources. This process, known as leveraging, means that local funds can be substantially expanded when combined with state and federal funds. For example, a program with a 25% local match means that every dollar of local money equals three dollars of other money can be obtained. SCTA’s policy has been to try to maximize the leveraging of federal, state, and regional funds wherever possible, to benefit the people of Sonoma County. The downside to this overarching approach is that projects end up being funded by numerous sources and if one of those were to decline or become unavailable the whole project is put at risk.
- As the transportation system ages, it grows more costly to maintain. Deferred maintenance often leads to short term savings, but longer term increases in costs.

The emphasis in this chapter is on funding, rather than finance, of transportation. Funding refers to the sources of revenue for transportation construction, operation, and maintenance. These include taxes, user fees, tolls, and similar sources. Finance refers to a method of paying for projects (usually capital improvements) and spreading the cost over a period of time beyond construction, in the same way that a homeowner

who cannot afford to purchase a home for cash may spread out the cost of a house over 30 year mortgage.¹

MAJOR REVENUE SOURCES

The SCTA has oversight over the distribution of nearly all discretionary State and federal funding for transportation in Sonoma County. Most of these funds come to the SCTA through MTC or directly from the State and federal governments. Measure M, a quarter cent sales tax, is administered directly by the SCTA. Measure M funds have been instrumental in enabling SCTA to leverage other fund sources, most notably over \$165 million in Corridor Mobility Improvement Account (CMIA) funds through the State of California. As the State continues to face financial struggles, the SCTA must be nimble in its financial and project management to ensure maximum benefit is received from limited dollars and that the expectations approved by voters in Measure M can be met.

Most of the money used for transportation projects is generated from the users that pay fuel, sales and other taxes and fees. These tax dollars flow into federal, State and local funding pots. The federal funds are used primarily for capital projects such as new highway lanes, bus purchases and local road maintenance. State funds go to capital projects, transit operations and cover maintenance and operations of the state highway system. Local funds are used for capital, operations and maintenance for all transportation modes, as well as to match federal and state grants.

CURRENT FUNDING PROGRAMS

Federal Taxes and Funding Programs

The federal government imposes several taxes on surface transportation modes. Most drivers are aware of the 18.4 cent per gallon gasoline tax every

¹ The National Transportation Infrastructure Financing Commission, created by SAFETEA-LU, also makes this distinction, and uses the two terms in the identical way as here.

time they fill up at the pump. Additional sources of revenues come from truck weight fees and tires. There are three key issues with the federal gas tax:

- California is a 'donor' state and historically has not gotten back all that it pays in gas taxes. Although this has improved in recent years, it means Californians' taxes are paying for highways in other states, especially large rural ones. The most recent federal transportation bill guaranteed that 92% of revenue any state paid would be returned to it, but that still translates into a significant funding loss to the state.
- As a tax on the gallons sold, the gas tax is not responsive to inflation. With recent spikes in gas prices, and the resulting decrease in the number of gallons sold, this has meant a reduction in the revenue collected.
- In the longer term, vehicles are expected to become more fuel efficient, with alternative fuels playing a larger role in the vehicle fleet. Although this is a positive for the environment, it will mean less funding for transportation needs in the future. Given that, other types of revenue generating mechanisms will have to be considered on a national level, e.g., a direct charge for vehicle miles traveled, rather than on gallons of fuel purchased. In the near term, the SCTA should advocate and lobby to restore the purchasing power of the Federal fuel excise tax, then index this tax to either the CPI or the cost of gasoline.

Surface Transportation Program / Congestion Mitigation Air Quality (STP/CMAQ)

STP and CMAQ are flexible funds because they are not restricted to particular modes. STP is the most flexible and can be used on most types of transportation projects while CMAQ funds are limited to the implementation of projects that improve air quality. The majority of federal transportation funding is used for capital projects, such as new highway

and rail construction, and for specific projects earmarked by Congress.

Eligible uses for STP funds include:

- Roadway or transit rehabilitation
- Operational improvements
- Transit facilities
- Intermodal Port facilities

Eligible uses for CMAQ funds include:

- Bicycle paths
- Transit
- Park and Ride lots
- Signal Coordination

Transportation Enhancement Program (TE)

The Transportation Enhancement program (TE) is meant to provide capital improvements that go above and beyond normal road or transit projects. Eligible uses for TE funds include:

- Bicycle paths
- Pedestrian paths
- Rehabilitation of historic facilities linked to transportation

State Taxes and Funding Programs

California's major source of transportation funding is derived from fuel sales, in two ways. The first method is through the 18 cent/gallon motor fuel tax on gasoline and diesel collected pursuant to Sections 2104 through 2107 of the Streets and Highways Code. This amount is actually less than the 31 cents/gallon state tax paid in other states², although most other states do not apply sales taxes to fuel purchases (see below). A portion of this revenue is transferred to local governments on a formula basis, but is restricted to the planning, operation, maintenance, and construction of roads. Funds are distributed using a formula based on population, vehicle registration, and road

² Source: American Petroleum Institute, accessed on 9/2/08. http://www.api.org/statistics/fueltaxes/upload/July_2008_Notes.pdf

miles. Most jurisdictions use this money for road maintenance purposes. Like the federal fuel tax, it is not automatically responsive to inflation, and the last time this tax was increased was 17 years ago, when voters passed Proposition 111.

The second source is from the retail sales tax on gasoline. Proposition 42 required that these funds normally be reserved for transportation purposes. However, a provision allowing funds to be diverted for other purposes in fiscal emergencies has been invoked in recent years, drastically limiting the funding available for transportation.

State Transportation Improvement Program (STIP)

STIP funds may be used for capacity increasing capital transportation projects, transit capital projects and road rehabilitation. The SCTA programs (i.e., allocates funds to projects by year) STIP funds every two years. As one of the only fund sources available for capacity increasing projects, the SCTA has traditionally used STIP funds to help pay for Highway 101 improvements.

Funding for the STIP has become much more volatile in the past few years due to the shift away from the State and federal gas tax. Instead, it is now more reliant on the State General Fund and thus subject to annual budget negotiations. This has made long term planning of transportation improvement projects much more difficult, since even the construction phase of a major transportation project is likely to last several years.

State Transit Assistance (STA)

These funds may be used for transit capital projects and transit operations and are claimed directly by public transit operators. Funds are appropriated from the State's General Fund, which is subject to annual review.

Transit Development Act (TDA)

TDA funds are the largest single source for transit operating and capital. These

funds are generated by a $\frac{1}{2}$ cent retail sales tax, and are generally returned to the jurisdiction where the retail transaction took place. As described below, a portion of this tax is dedicated for bicycle and pedestrian programs.

TDA Article 3 Program

Each year the SCTA reviews and adopts a program of projects for bicycles and pedestrians to be funded through the TDA Article 3 program. These funds are generated as part of the sales tax and represent approximately 2% of the total TDA funds received in the county.

REGIONAL AND LOCAL FUNDING PROGRAMS

Transportation Funds for Clean Air (TFCA)

The SCTA is the program manager for the TFCA funds that come into Sonoma County. These funds are generated through a four-dollar surcharge on vehicle registrations within the Bay Area Air Quality Management District. The Air District covers the southern half of the county (Windsor south). These funds can only be used on specific projects deemed eligible by the Air District. Each year the SCTA approves a program of projects and submits it to the Air District for approval.

Measure M

The Traffic Relief Act for Sonoma County (Measure M) provides for a $\frac{1}{2}$ cent sales tax to be used to maintain local streets, fix potholes, accelerate widening Highway 101, improve interchanges, restore and enhance transit, support development of passenger rail, and build safe bicycle and pedestrian routes. Passed in 2004, the expenditure plan funds specific projects (including both capital and operations) until it expires in 2024. Measure M generates approximately \$19 million annually in 2008 dollars.

Specialized Funding Sources

In addition to the programs described here, smaller, more specialized programs are available to local jurisdictions for specific projects. The State, with the passage of Proposition 116, provides funding for specified rail projects with a local match and demonstration of ability to operate. The State and federal governments offer grants through the Office of Traffic Safety and the Safe Routes to School program that are targeted to small scale safety oriented projects. Local jurisdictions also fund transportation projects through Community Development grants and development mitigation fees as well as from their own general funds. The SCTA has also programmed funds to special projects through regional programs including Transportation for Livable Communities, the Regional Bicycle & Pedestrian Program, and Lifeline Transit.

Traffic Impact Fees

These are funds collected by local government on new development, typically on a formula basis to pay for a specific list of capital improvement projects that would benefit the new development. The fees are typically paid when building permits are issued. The fee is usually based upon the number of vehicle trips projected to be generated by the new development. Use of the fees is restricted by State legislation (AB 1600), e.g., fees on new development may not be used primarily to correct existing traffic deficiencies. Although Sonoma County has several traffic impact fee areas, SCTA does not currently collect impact fees. There has been some discussion of creating a regional or multi-jurisdictional traffic impact fee to pay for regional improvements; there is precedent for doing this in other California counties.

Developer Dedications

Virtually all local governments with land use authority require major projects to provide on-site and street frontage improvements to their developments. Developers may also provide negoti-

ated dedications of land or other transportation improvements.

Tolls

There are no toll facilities in Sonoma County. The Golden Gate Bridge, Highway and Transportation District (GGBH&TD) currently collects tolls for all vehicles crossing the Golden Gate Bridge. Funds are allocated by the District to for the operation and maintenance of the Golden Gate Bridge, as well as the Golden Gate Transit system (which includes buses and ferries). The Bridge District Board has three representatives from Sonoma County (out of 19 total). The Bay Area Toll Authority collects tolls on all the other bridges in the Bay Area.

MTC is considering a proposal to create a Bay Area-wide network of High Occupancy Toll lanes, or "HOT" lanes, whereby HOV lanes could be used free by carpools, but for a charge by single occupant vehicles. Such a program has been successfully operated in San Diego (I-15 North) for many years, with the toll fluctuating depending on congestion levels and the related travel time savings for solo drivers in using the HOT lane. This proposal will require special enabling legislation.

Public-Private Partnerships (PPP)

Public private partnerships (PPP or P3) are institutional arrangements in which a service traditionally provided by the public sector is instead operated through a partnership of government and one or more private sector companies. Transportation PPPs have taken a variety of forms, with the common characteristic that the transportation facility must be a direct revenue generator, whether it is a toll road or bridge, airport, or transit line. The most common models are leasing a public asset (including land) to a private entity, or selling the private entity as a concession the right to design-finance-build-operate-maintain (DFBOM) a new facility. This distinguishes PPPs from traditional arrangements in which the public sector purchases goods or services

LEVEL	REVENUES CONTROLLED	AGENCY	RELATED DOCUMENTS
State	State Transportation Improvement Program (STIP)	CTC	STIP Policy Resolutions Regional Transportation Plan (RTP) Guidelines
Regional (Bay Area)	RTIP & CMAQ Transportation Development Act (TDA) State Transit Assistance (STA) revenues	MTC	RTP Policy Resolutions Comprehensive Plan Guidelines County Transportation Plans
SCTA	Measure M County RTIP Allocation County STP/CMAQ Allocation Transportation Fund for Clean Air (TFCA) Funds	SCTA	Measure M Strategic Plan Comprehensive Transportation Plan

this update. New projects were evaluated based on their ability to meet the goals determined by the SCTA. A discussion of the goals and performance measures can be found in Chapter 4.

As part of its financial forecasts for the Transportation 2035 Plan, MTC projects that \$223 billion in federal, state, regional and local revenues will reasonably be available to the region over the next 25 years. About \$191 billion (roughly 85 percent) is committed by voter mandate, statute or MTC policy towards maintaining and operating our existing systems. The remaining \$32 billion is considered uncommitted discretionary revenues available for a wide range of investments in the areas of maintenance, system efficiency and expansion. It is anticipated Sonoma County will receive its population share of 6.5% of the total regional funding.

but normally does not provide most of the assets needed to complete the work.

Transit Fares

Transit fares currently pay for a portion of the operating and maintenance costs of all transit systems. The so-called “fare box recovery”—the percent of operating and maintenance costs recovered from rider fares—is typically 12 percent for Sonoma County Transit’s fixed route and paratransit services combined, although fixed route services typically are higher than the average.³ For example, in FY 2004, GGT’s bus system obtained approximately a quarter of its operating cost from fares. Virtually no urban public transit system in North America pays all of its operating expenses from fares; the shortfall in transit operating is made up for by TDA and STA funds.

Implementation Process

The table at left illustrates which level of government controls which types of transportation revenues. A bottom up process is key to identifying funding for projects.

MTC has published a booklet called Moving Costs that describes the funding programs in greater detail. It is available to the public at MTC’s website: (www.mtc.ca.gov/library/funding_guide/moving_costs.pdf).

PROJECT REVENUES

Allocation

The 2009 CTP expenditure list can be found in Appendix A. Projects that were part of the 2004 CTP but were not completed have been included in

³ Sonoma County Transit, Short Range Transit Plan FY2007-2016, Final April 2007, Figure 1-4.