Transit Alternate Funding Options Study

Technical Memo — Task 1

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Prepared for:

Volusia Transportation Planning Organization
Votran

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1. Introduction

This technical memorandum presents funding strategies used to meet Votran's operating and capital needs as well as those employed for other transit agencies. The results of this analysis will serve as the basis for identifying and evaluating alternative funding approaches that could be utilized to meet Votran's on-going operations and state of good repair needs as well as provide for proposed service expansions. The PFM Group prepared this technical memorandum as part of its work for Task 1 of the Transit Alternate Funding Options Study for the Volusia Transportation Planning Organization and Votran. The analysis is based on an evaluation of Votran's existing financial operations, an assessment of the Volusia County Transportation Improvement Program ("TIP") and Long Range Transportation Plan ("LRTP") and an evaluation of transit industry and PFM data and analyses on funding strategies typically used in other regions.

Similar to peer transit systems, Votran's operating funding, in addition to fares, is derived from a combination of General Fund contributions from Volusia County, Florida Department of Transportation ("FDOT") grants and Federal Transit Administration ("FTA") assistance for capitalized operating expenses. Votran's capital funding, like comparable transit providers, is highly dependent upon FTA funds. Over the near to medium term, Votran plans to implement feeder bus service to connect to SunRail and pursue the recommendations of its Transit Development Plan ("TDP") which calls for increased service frequencies, improved span of services and new routes. At the same time it will continue fleet replacement initiatives for its base system. As Votran defines and evaluates the timing and costs to pursue these measures, it will be important to identify funding and financing options to support their implementation.

While Votran can seek additional resources from its existing funding sources, competing demands on and constraints facing the County General Fund, the State Transportation Trust Fund ("STTF") and the Federal Mass Transit Account, may necessitate the identification of one or more new funding sources. Transit agencies fund their operating and capital needs with a variety of sources. However, a sales tax is the most common dedicated funding source. Other funding sources include gas taxes, motor vehicle fees, property taxes, and toll revenue credits. The identification of a preferred Votran funding strategy is contingent upon achieving several objectives including an equitable balance between the source of funding and the beneficiaries of transit; predictability and stability of revenues; elected official and policy maker support; well defined legal framework for implementing and collecting the funding source and if required, pledging to bondholders to support financing; as well as manageable administrative procedures and costs to collect revenues.

Following this introduction, Section 2, presents an overview of Votran's current financial operations. Section 3 highlights Votran's resource needs relative to the TIP and LRTP. Section 4 describes funding strategies used typically by other transit agencies, while Section 5 presents alternative transit capital financing strategies. Finally, Section 6 describes the evaluation measures that will be used to identify a preferred set of funding and financing options as part of the development of Votran's financial plan.

2. Current Financial Overview

Recent Financial Operations

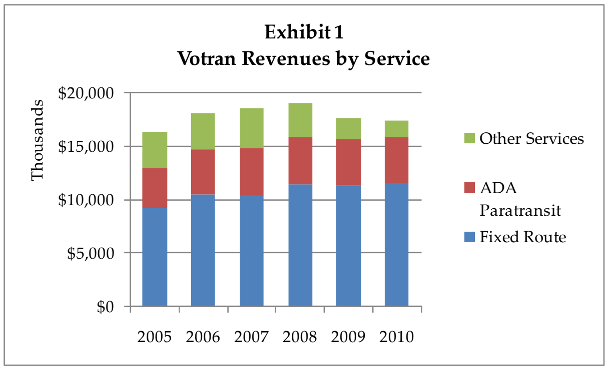
Votran operates an integrated fixed route bus and paratransit network serving the mobility needs of Volusia County. Operations are funded from a combination of fare and other operating revenues, Volusia County General Fund contributions, FTA and other grants, and FDOT grants. Since fiscal 2005 total revenues, keeping in line with operating expenses have grown by 1.0% annually (see Exhibit 1) to $17.4 million in fiscal 2010. Growth of 5.0% annually between fiscal 2005 and 2008 was largely offset by 4% annual declines in fiscal 2009 and fiscal 2010, reflecting implementation of operating cost reductions as a result of the recession. Fixed route bus services represent 66% of fiscal 2010 funding, while paratransit and other paratransit services* equal 24% and 9%, respectively.

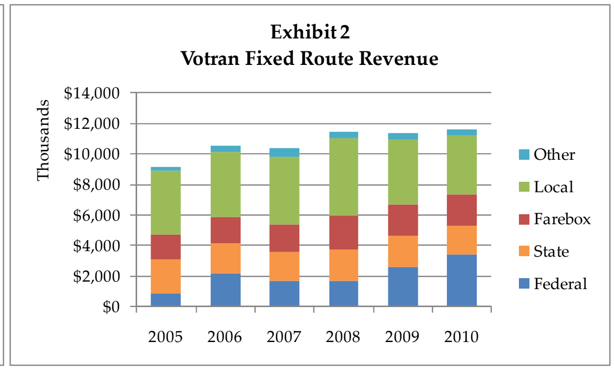
Funding for Volusia County's transit services fall into three distinct categories:

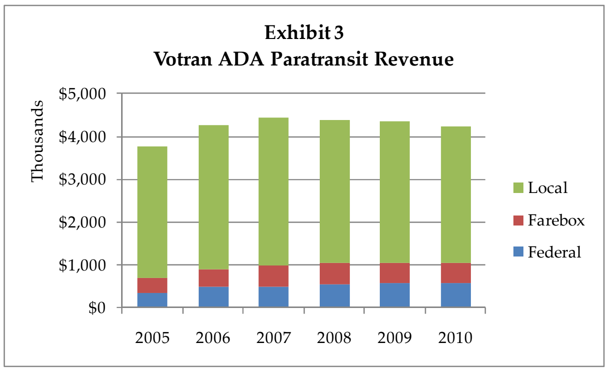
- **Fixed Route (Exhibit 2) –** Since fiscal 2005, Fixed Route bus service revenues have grown by an average of 4.0% per year. The largest growth in this category comes from FTA grants which averaged 26.1% per year. This reflects Votran's increased application of FTA funds for capitalized maintenance and the availability of $840,000 of American Recovery and Reinvestment Act grants for operations in 2010. The growth in FTA funding as an operating source was partially offset by State and Local funds which decreased at an average 3.4% and 1.4% per year respectively. State funding has fluctuated with changes in Surface Transportation Program funds. Local funding peaked in fiscal 2007 and 2008 to help cover the increased cost of fuel and has since leveled off as Votran applied an increasing amount of FTA funds towards capitalized maintenance. Farebox and Other revenues grew at an average rate of 3.9% and 10.9%, reflecting the effects of the fiscal 2008 fare increase and new terms implemented in fiscal 2007 for the advertising contract, respectively. For fiscal 2010, Local funds equal 33% of total revenues followed by FTA funds at 30%, fares 16%, State 18% and other revenues 4%.

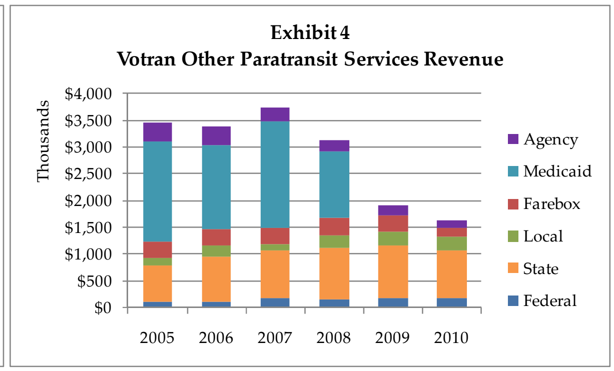
  ADA Paratransit (Exhibit 3) – Total paratransit revenues grew at an average of 2.0% per year since fiscal 2005. FTA and State funds exhibited the strongest growth during this period averaging at 8.2% and 6.4% annually. Local funds increased at a slower 0.6% annual rate with funding ramping up in fiscal 2006 and 2007 to cover higher fuel prices and leveling off thereafter. Local sources contribute 75% of funding, while fares and FTA funds equal 11% and 13%, respectively.

- **Other Paratransit Services (Exhibit 4) –** Other paratransit services have declined by 11.9% per year since fiscal 2005. This decrease was due in large part to the Votran's discontinuation of coordinating Medicaid services in fiscal 2008 This offset a nearly 12% annual increase in Federal and Local funds and 4% annual growth in State funds. Medicaid user co-pays declined by an annual average of 10% during this period State resources represent 54% of funding, while Local funds provide 15% and Federal, Co-pays and other Agency funds each represent about 8%-12%. Given vanpool costs are a minor component of Votran's cost structure, this item is included as part of Other Paratransit Services/

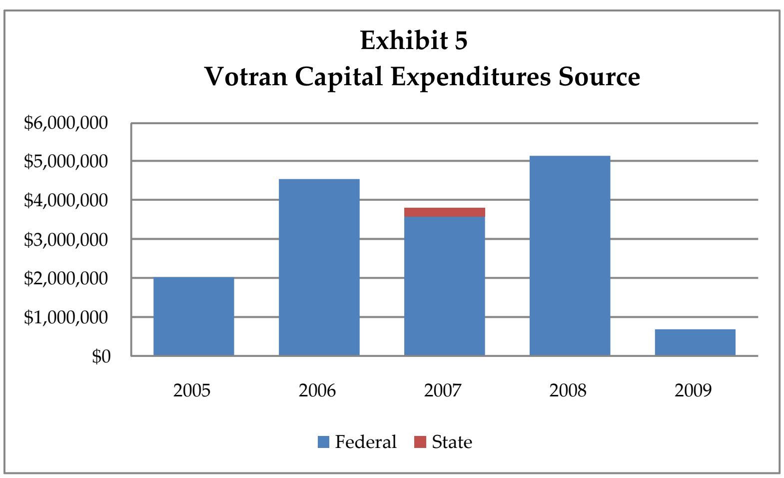








As shown in Exhibit 5, capital expenses are funded almost exclusively by FTA grants. This is accomplished through the use of toll revenue credits as a soft match to FTA funds. Annual capital spending varies, primarily driven by Votran's vehicle acquisitions.



Transit Development Plan

Votran's 2007-2016 Transit Development Plan ("TDP") has two ways that it identifies funding for the agency. Funded projects are commitments to continue to provide service and/or to provide service more effectively. Unfunded projects are targeted programs to improve the span and frequency of service. Key initiatives include:

- Increased service frequencies along the US Highway 1 Corridor
- Introduction of SunRail feeder bus service
- Additional express bus services
- Expanded evening, Saturday and Sunday service hours
- Vehicle purchases for the regular replacement and expansion of the fixed route bus, trolley and paratransit fleet
- Improving bus stops and enhanced passenger amenities with new "super" stops and transfer facilities
- Maintenance facility improvements and expansion

The Planning Context

Over time the County has committed itself to financing transit as described in the following tables. A high priority and high value has been established by the Sunrail partnership. By 2020 the existing level of service provided by the Votran bus system will remain constant while the Sunrail investment will represent almost half the Votran bus system budget. Exhibit 6 below illustrates that the value of transit operating funds each year will grow to approximately $13.5 million without any additional growth in baseline bus service.

In addition to supporting SunRail service, the TDP outlines other transit service enhancements for the Volusia County community to consider. Exhibit 7 reflects the projected cost for the recommended transit service enhancements. These enhancements will require $5.9 million in capital funding and $20.1 million in operating funding. These are primarily related to the introduction of new services and improving the frequency and span of services of existing routes. Exhibit 8 presents LRTP operating and capital needs between 2015 and 2030 for new and expanded services. Implementation of these recommendations will likely require funding support in addition to the County's contributions from the General Fund.

Exhibit 6
Volusia County's Ad Valorem Commitment to the Public Transit Budget
$000's

Fiscal Year	Estimated Votran Operating Expenses	Estimated Commuter Rail Financial Commitment	Total Public Transit Financial Commitment
FY 2010	$8,365	$0	$8,365
FY 2011	$7,110	$0	$7,110
FY 2012	$7,324	$1,200	$8,524
FY 2013	$7,543	$1,415	$8,959
FY 2014	$7,770	$3,347	$11,117
FY 2015	$8,003	$3,738	$11,741
FY 2016	$8,243	$3,785	$12,028
FY 2017	$8,490	$3,835	$12,325
FY 2018	$8,745	$3,876	$12,620
FY 2019	$9,007	$3,867	$12,874
FY 2020	$9,277	$4,283	$13,561

Exhibit 7
Votran 2006 - 2016 Unfunded Project List, $000's

Project #	Project Description	Operating	Capital
4	**West Side COA Recommendations**		
	* DeLand ITF Route Modification (buses unfunded)	$0	$405
5	**Commuter Rail Bus Feeder Support**		
	* East Side Express Connector	$571	$469
7	**Increased Service Frequency US 1 Corridor**		
	* Route #3	$2,902	$579
	* Route #4	$2,902	$579
8	**Increase East-West Service Frequency**		
	* Route #60	$3,097	$851
9	**Beach Service Area Improvements**		
	" Additional Beach Trolleys	$2,624	$0
10	**Increased Service Frequency**		
	* Routes TDB in COA	$4,552	$1,876
11	**Sunday, Evening & Saturday Service**		
	* Additional Service Hours TBD in COA	$2,054	$0
12	**Express Bus Routes**		
	* Addition of Express Buses TBD in COA	$1,426	$0
35	**Maintain and Provide Facilities & Infrastructure**		
	* Main Transfer Plaza	$0	$670
36	**Regional Transit Training Center**		
	* Second Phase: Mobile Driver Simulator Unit	$0	$440
	TOTAL	**$20,127**	**$5,869**

Exhibit 8
Volusia County TPO Long Range Transportation Plan Transit Projects. $000's

Year (start service)	Capital Costs	Operating Costs	Description
2015	$0	$0	Added bus service to support SunRail operations starting in 2015. Service is funded by the Department of Transportation for the first seven years
2016	$1,760	$26,900	Add buses to improve the frequency of existing service on US-1 to 30 minutes
2016	$1,170	$17,930	Add buses to improve the frequency of existing bus/trolley service on SRA1A to 15 minutes and expand seasonal trolley service to year round.
2018	$1,840	$24,760	Add buses to improve the frequency of cross county service on US-92 to 30 minutes and extend the route to the SunRail Station in 2020
2018	$2,460	$33,020	Add buses to improve the frequency of service in Port Orange and Ormond Beach to 30 minutes and add night and Sunday routes in Port Orange
2018	$1,840	$24,760	Add buses to the existing route in West Volusia operating along US 17/92 to improve the service to 30 minutes
2018	$1,840	$24,760	Add buses to improve the frequency of service in the core areas of Daytona Beach to 15 and 30 minutes
2018	$1,230	$16,510	Start a new service that will improve access across Volusia County in the southern portion of the county
2020	$1,290	$15,020	Add buses to existing service to increas the frequency to 30 minutes in the City of Deltona
2020	$1,940	$22,520	Start a new trolley bus circulator system in the downtown DeLand area with increased service for the local area
2020	$2,580	$30,030	Start a new trolley service that provides direct connectiosn to key destinations and increased frequency of service via a downtown circulator system
2020	$1,290	$15,020	Proposed through the Make Your Mark planning sessions and by the LRTP Subcommittee, this includes additional buses needed to restore and expand service in Northwest Volusia
2020	$0	$0	Extend the SunRail communter rail service to the DeLand Amtrak Station as outlined in the existing project plans and agreements
2025	$13,400	$9,610	Provided a connection along the existing rail spur from the SunRail Station (DeLand Amtrak) to downtown DeLand near Woodland Blvd.
2030	$34,500	$24,780	Add enhanced transit connection operating on the main corridors and between east and west Volusia County

3. Transportation Funding Context

Votran's capital and operating needs are funded within the context of Volusia County's annual budget as well as the TPO TIP and LRTP. As a result, policy decisions governing the provision of transit service are made as part of a comprehensive strategy to deliver a broad range of public protection, community, and transportation services provided by the County and to specifically operate an integrated transportation network that meets the mobility needs of residents, visitors and businesses. The County's contributions to Votran's operating budget is derived from the property tax which is set at 5.36829 mills and currently represents 5.8% of total property tax revenues. Reflecting the severe effects of the recession, the County imposed a nearly 20% increase in the property tax to offset reduced revenues from declining property values. The County's fiscal 2010 budget notes, that despite this increase, total general fund revenues for fiscal 2010 which is primarily derived from the property tax and includes other sources such as intergovernmental grants, sales taxes, fund balances, charges for services is projected to be 4% less than fiscal 2009. As a result, Votran's ability to sustain even current service levels is challenged given the County's general fund constraints.

The TPO's 2011-2015 TIP projects a $613.2 million program to meet state of good repair and selected expansion of the County's transportation network. A little more than 41% of funding is derived from County and other local sources, while 32% is from Federal Highway Administration ("FHWA") and FTA grants and 27% is from FDOT grants. Votran needs represent $168.3 million or 27% of TIP needs. This is nearly equally divided between operating and capital projects Of Votran's total operating and capital needs over the TIP period, 47% is projected to be funded by County sources. FTA grants are estimated to support 40% of Votran needs, while FDOT equals 13%.

The 2035 LRTP, which was most recently adopted in September 2010, includes $642.3 million in transit operating and capital needs to support the baseline network and fund system improvements and expansions. Importantly the LRTP assumes that in addition to existing transportation funding sources a ½% Transportation Surtax is in place by 2016 to fund the implementation of improved transit services. The Volusia Transportation Planning Organization adopted a resolution that supports a referendum so that County residents can determine whether or not to pursue by 2016 "…a locally generated revenue source as the financial basis for the implementation of enhanced transit service in Volusia County."

4. Alternative Transit Funding Strategies

Overview

Similar to Votran, transit agencies nationally are funded from a combination of fare revenues, FTA grants, state funds and local funds. According to FTA's 2008 National Transit Database report, fare revenues represented 31% of operating funds expended, while local and state funding sources consisting of dedicated tax sources and intergovernmental grants equaled 30% and 26%, respectively. Reflecting Federal policy where FTA funding support is more focused on capital, particularly for larger transit systems, and is generally limited to covering capitalized maintenance expenses for operations, FTA resources represent 7% of operating funds expended. Other funding sources equal the remaining 6% (see Exhibit 9). Capital expenditures are primarily funded by local resources (47%) and FTA grants (40%). State funds are 12% of capital resources, while the balance is provided from other sources (see Exhibit 10). Given Votran, similar to Florida's other transit providers operate service where access to/competition from autos is significant and need to respond to the mobility needs of rural, disabled and economically disadvantaged residents fares are set at a level where transit is accessible and competitive in this environment. Votran's 20% farebox recovery ratio, while lower than the national average is comparable to the state average of 21%.

Exhibit 9
National Average Operating Funds Expended - 2008

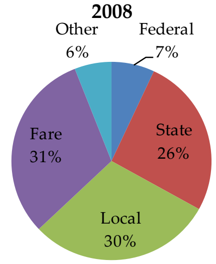
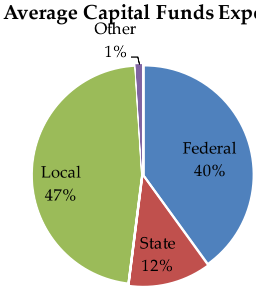


Exhibit 10
National Average Capital Funds Expended - 2008



Local and Regional Funding Options

Transit agencies utilize a number of user fees, consumption, real estate, and intergovernmental grant based local sources to fund a portion of their capital and operating needs. Exhibit 11 lists these sources.

Exhibit 11
Transit Local Funding Options

User Fee	Consumption	Real Estate	Intergovernmental	Innovative
Fares	Sales Tax	Property Tax	General Fund Transfer	VMT Fee
Parking	Motor Fuel Tax	Property Transfer		Congestion Pricing
Tolls	Hotel Tax	Tax Increment		Mobility Fee
Motor Vehicle Fees	Rental Car Tax	Special Tax District		
		Joint Development		

According to the Transit Cooperative Research Program's 2009 report entitled *Local and Regional Funding Mechanisms for Public Transportation*, transit agencies serving regions with a population ranging from 200,000 to 1.0 million depend upon sales tax revenues and general fund contributions for local funding support. While fares represent 30%, sales taxes equal 26%, general funds are 27% with the balance coming from other sources. For capital expenses, local funding is derived mostly from general funds 43%, sales taxes 39% and other sources 18%. The following highlights the features of local and regional funding sources typically used by transit agencies.

User Fees

- **Fares:** Transit agencies establish their fare structures to carefully balance the need to generate sufficient revenues to cover a portion of operating expenses while ensuring that the cost to use transit is competitive relative to other modes and does not prohibit access to the system for the economically disadvantaged. While the percent of Votran fare revenues covering operating expenses at 20% is lower than the 31% national average, it is in line with other Sun Belt systems where auto access is strong. Within Florida, fares represent 24% of LYNX's operating expenses, while it is 22% for Miami-Dade Transit ("MDT"), 19% for Collier Area Transit, 15% for LeeTrans and 36% for StarMetro. Votran implemented a Fare Policy that is published on the web **http://www.votran.org/farepolicy.htm**.

- **Advertising:** Transit agencies typically supplement their operating revenues by entering into contracts with third parties to place advertisements on the exterior and interior of buses, at bus shelters and stations and on fare media. According to the National Transit Database, other revenues which include advertising and interest income represent 6% of total operating revenues. In comparison to Votran which generates 4% of its revenues from other sources for its fixed route bus networks, other operating revenues for Florida transit systems range from 0% for Collier County to 5% for Lee County.

- **Parking Fees:** Transit agencies collect parking revenues from the operation of bus and rail park and ride facilities. While revenues generated provide supplemental funding, it is important that parking fees together with transit fares do not detract from the competitiveness of and accessibility to transit services.

- **Tolls:** Toll revenues are utilized in a large number of metropolitan areas to provide additional funding for transit. New York's bridge and tunnel crossings provide surplus toll revenues to fund a portion of the needs of the region's transit and commuter rail network. Likewise tolls are supporting the development of the Metrorail extension to Dulles Airport, provide for a portion of operating needs for Pennsylvania's transit systems and supplement capital funding for the San Francisco and Dallas regions. Toll revenues are largely driven by the established toll rate, the competitiveness of the toll facility relative other travel corridors, motor vehicle usage and underlying regional economic and demographic conditions. The use of toll revenues for transit provides the opportunity to increase transit funding and encourage use of the transit network through higher toll rates. However, the toll rate strategy employed has to carefully balance the need to generate sufficient toll revenues to meet the toll road's operation, maintenance, debt service and capital requirements and bondholder covenants while providing the necessary level transit funding.

- **Toll Revenue Credits:** In Florida FDOT allows transit systems to use toll revenue credits, authorized by Title 23 U.S.C. 120(j)(1), as soft match for FTA capital grant programs. Each year FDOT notifies agencies about the availability of toll revenue credits and approves the use of the credits on transit capital projects.

- **Vehicle Fees:** These fees are typically imposed by a state government based on vehicle value, weight or age. In addition, fees are levied for the issuance of a vehicle title, registration or a driver's license fee. Transit agencies are typically indirect recipients of the revenues derived from these sources through allocations of a transportation trust fund. Vehicle fee revenues are influenced by vehicle ownership and usage as well as underlying economic and demographic conditions. In Florida, the tag fee includes $1.50 that is collected for the Transportation Disadvantaged Trust Fund.

Consumption Based

- **Sales Tax:** Sales taxes dedicated to transit are imposed on the retail sales of those items typically subject to taxation by a broader city, county, regional and/or state sales tax. Often a use tax is imposed at the same rate as the sales tax, but covers items such as lease or rental transactions or good purchased outside of the sales taxing district. In contrast to a broad based sales tax, a consumption tax can be levied on a particular activity such as on the price on hotel stays or food and beverage purchases. Obviously, a broad based sales tax provides a more predictable and stable revenue source than one that is targeted toward a particular activity.

  Sales taxes are the most commonly accepted dedicated funding source for transit and have historically provided the greatest revenue yield and stability compared to other sources. Revenue yield is highly dependent upon the scope and strength of the taxing district's economic and demographic characteristics. While it is recognized that sales taxes are sensitive to economic cycles, a number of transit agencies that utilize this revenue source have had to contend with recent declines in excess of 10% as a result of the national recession. Sales taxes are typically imposed at rates ranging from 0.25% such as St. Louis' Bi State Development Agency for its Proposition M tax, and 1% for the Greater Cleveland Regional Transit Authority. The Los Angeles County Metropolitan Transportation Authority has three voter approved sales taxes dedicated to the construction, improvement and operation of the transit network. The imposition of a sales tax can be perpetual or subject to sunset or renewal subject to voter approval. The timing for the renewal of a sales tax typically coincides with the expected completion of a major capital program. This approach has been utilized by a number of California counties including Orange, Riverside, San Diego and Santa Clara.

- **Discretionary Sales Tax:** As a charter county, Volusia is authorized to levy a 1% Discretionary Charter County Transportation System Surtax, as authorized by Sections 212.054 and 212.055(1), that can be utilized to fund both transit and highway needs. To date Duval and Miami Dade have levied this tax at a rate of 0.50%.

- **Gas Tax:** Gas taxes continue to represent the most common revenue source for highways. The tax represents the primary funding source for the Federal Highway Trust Fund and the Mass Transit Account as well as for Florida's STTF. Transit agencies receive funding derived from gas taxes as an allocation of state funding from a transportation trust fund, which receives revenues from motor fuel and other taxes or from a specific allocation of the gas tax. Taxes are typically levied based on the number of gallons sold. However, fuel taxes have been imposed in the form of a retail sales tax in Northern Virginia. Florida is unique in its application of the gas tax. It is one of the few states that annually adjusts some portions of the tax based on the consumer price index. In addition, counties such as Volusia have the authority and have imposed local option gas taxes to finance County transportation needs. The County Transportation Trust Fund receives revenues from the 5 cents Local Option Gas Tax, the 5th and 6th Cent Constitutional Gas Tax, the 7th Cent County Gas Tax and the 9th Cent Gas Tax. However, the Volusia County gas tax has not been indexed and there are efforts being made to modify the current approach to make it more consistent with the State of Florida annual adjustment.

Gas tax revenue collections are influenced by motor vehicle usage and fuel efficiency, changes in base fuel prices as well as underlying economic and demographic conditions. Limited growth in recent years has been influenced by sharp variations in motor fuel prices as well as the recession. Outside of Florida, the lack of an inflation index on the fuel tax has further constrained this revenue source. While this tax source will continue to be the primary funding source for the Federal surface transportation program and for State's, elected officials and policy makers continue to seek a long term, sustainable alternative source to supplement and perhaps eventually replace the fuel tax such as vehicle miles travelled fee.

- **Rental Car Fees:** This tax is paid by consumers based on the rental of a vehicle for a specified period of time. Rental car fees provide an opportunity to "export" the tax burden to support a particularly governmental purpose to non-resident recreational or business travelers. Transit agencies receive revenues from state rental car taxes such as Philadelphia's Southeastern Pennsylvania Transportation Authority and Pittsburgh's Port Authority of Allegheny County or have a regionally dedicated rental car tax such as the Raleigh region's Triangle Transit Authority. Rental car fee revenues are driven by business and recreational travel trends within a region as well as the effects of national economic conditions on travel.

Property Based

- **Property Tax:** Ad valorem property taxes are the most common revenue source to support general government services. While historically less sensitive to economic cycles than sales taxes, property tax revenue yield and growth is dependent upon economic and demographic conditions and assessed property values. As Volusia County and other governments have experienced over the past two years, property foreclosures and significant declines in valuations have adversely impacted tax collections.

  Property taxes have been imposed for special districts and have been dedicated for transit. For example, the Des Moines Area Transit Authority's primary local funding source is derived from a property tax imposed within in the units of government served by the transit agency. In addition to funding systemwide needs, property taxes can be imposed to finance specific projects. Within Fairfax County, VA a transportation improvement district was established, subject to the approval of the majority of property owners, where a tax surcharge on commercial and industrial properties in Tysons Corner is being used to fund in part the extension of Metrorail service to Dulles International Airport.

- **Realty Transfer and Mortgage Recordation Taxes:** This consists of a fee that is levied on the sale of residential, commercial or industrial property and is based on the value of the property being sold. Given revenues are based on the number and value of real estate transactions, it is highly sensitive to development and economic cycles.

- **Tax Increment Financing:** Under a tax increment financing ("TIF"), taxing districts are created to pledge future tax revenues toward financing infrastructure improvements within the district. While there are some limited applications for transit, TIFs have been typically used to finance commercial and residential improvements. The TIF establishes a base-year tax level for a district. Any taxes generated above that base-year amount through increases in property values are allocated to district for improvement projects or services. Like realty transfer and mortgage recording taxes, TIF revenues are very sensitive to real estate market conditions are entirely dependent upon achieving development expectations within the district.

- **Developer Agreements:** Improved access provided by the transit services increase the attractiveness of commercial, retail and residential properties that are served. Recognizing the benefits of improved transportation access, developers are sometimes willing to fund a portion of park and ride lots, overpasses, walkways and other facilities that connect transit services to these properties. In addition, the transit agency may have the opportunity to enter into a long term lease of any adjacent property not directly needed for the transit services that could be used for commercial or retail development. Such developments also benefit the transit provider through increased ridership. Transit agencies such as MDT, SEPTA, Washington Metropolitan Area Transit Authority ("WMATA") and Metropolitan Atlanta Rapid Transit Authority have implemented joint development projects around station areas through ground and air rights leases to provide supplemental revenues. Given joint development is project specific, the revenues derived are sensitive to local real estate conditions and business terms executed with the private developer. While this funding source typically represents a small share of transit revenues, it does provide a supplemental resource that can also yield important ridership benefits.

Intergovernmental

- **General Funds:** This typical refers to intergovernmental grant contributions from a local government to the transit agencies for capital and operating purposes. General fund contributions are derived from revenues received by the local government from property taxes, sales taxes and other fees and charges. Similar to Votran's funding provided by the County, the amount of general fund contributions are determined by balancing the transit agency's operating and capital needs, expected resources to be provided by FTA and state funding partners and the expected revenues to received by and competing funding demands on the general fund. In those cases where the transit agency is funded by more than one local jurisdiction, annual general fund contributions can be determined based upon an agreed formula considering factors such as the local jurisdictions share of ridership and service provided. Such an arrangement is utilized by WMATA.

- **Municipal funds:** Certain municipal level trust funds are separately administered by community redevelopment agencies ("CRA"). A trust fund administered by a CRA board is derived from tax increments arising from properties lying within a redevelopment district. In Florida the CRA powers are broadly defined according to statute F.S. 163.330. The structure of the board incorporates public and private enterprise. Tax increment financing has been used for transit projects in Florida.

Innovative

Transportation policy makers nationally and within Florida are developing alternative funding strategies that supplement or in some cases may replace traditional funding source like the gas tax. Such innovative funding strategies are being structure to more directly link those benefitting from transportation improvements with those paying their fair share. Although these strategies hold the promise of yielding additional transportation funding support in the long term, it is expected that transit agencies will continue to rely on more established funding sources to provide the bulk of their resource near through the medium term. These innovative strategies encompass:

- **Vehicle Miles Travelled Fee:** As a potential long term replacement to the gas tax, the vehicle miles travelled fee is based on a rate per distance travelled by a motorist. To date, according to the 2009 TCRP study, Oregon has implemented a pilot project in the Portland area and California, Idaho, Iowa, Maryland, North Carolina and Texas are studying the concept.

- **Congestion Pricing:** This entails a variable tolling strategy where tolls are set based on the expected use of a travel corridor and time of day. Such a strategy can be employed on a specific toll road to manage traffic flow and generate additional revenues, or it can be applied to a ring around a highly congested urban core such as in London.

- **Mobility Fee:** Following passage of the 2009 Community Renewal Act, FDOT and the Florida Department of Community Affairs ("FDCA") prepared concepts for a mobility fee which would be charged on all new development to mitigate its impacts on the transportation system. The FDOT and FDCA study indicates that the mobility fee has the potential raising more revenues than transportation impact fees currently imposed, but would likely cover a small portion of the State's transportation needs. Mobility fees would be established by counties in conjunction with participating local governments. The study identifies two approaches for levying the fee. Under an improvements based approach charges would be based on the cost of a set of improvements necessary to accommodate future growth. The consumption based approach charges each new development based on the value of the increment of transportation facility or service need generated by that development. The value of each increment is determined based on transportation improvements and can be reflected as an average cost per unit of transportation service consumed (such as a lane mile of roadway or hour of transit service). Implementation of the mobility fee as a funding option is uncertain at this time given a recent legal challenge that resulted in a ruling that mobility fee provisions of the Act violated prohibitions on unfunded mandates.

Federal Funding Programs

Votran, like other transit agencies, receives Federal funding under one or more FTA grant programs which receive revenues from the Mass Transit Account of the Highway Trust Fund. The Mass Transit Account is funded from 2.86 cents of the Federal motor fuels tax. The following describes the major FTA funding programs.

- **Section 5307 Urbanized Area Formula Grant Program:** This is the core grant funding program for transit agencies and bus systems, in particular. Section 5307 grants are provided to fund transit capital needs and capitalized maintenance. FTA grants fund up to 80% of eligible project costs and are allocated to urbanized areas based on various demographic, level of service and ridership variables.

- **Section 5309 New Starts, Small Starts, Discretionary Bus and Fixed Guideway Modernization Programs:** The Section 5309 program consists of several components. Bus systems can receive grant funding for the purchase of new vehicles under a discretionary grant program. For transit agencies pursuing the development and construction of a new service, FTA grants can fund a portion of project costs under the New Starts and Small Starts programs. Under the Small Starts program, transit agencies can seek FTA funding of 80% of project costs up to a maximum of $75 million and the total project cost must be less than $250 million. Project with total costs greater than $250 million fall under the New Starts program. Funding provided under both of these programs is awarded based on an assessment of the project's transportation benefits and local financial commitment. Given competition for funding and on-going resource constraints, transit agencies will typically apply for funding that is less than statutory maximum.

Finally, Section 5309 also includes the Fixed Guideway Modernization, which provides capital and capitalized maintenance assistance for fixed guideway rail and bus rapid transit services. Similar to the Section 5307 program, funding is provided to urbanized areas based on demographic, ridership, fixed guideway length and service factors.

- **Other FTA Grant Programs:** Several smaller grant programs are available to support transit capital and operating needs. The programs most applicable to Votran encompass:

    - ***Section 5308 Clean Fuels:*** Grants are provided to finance projects such as purchasing or leasing clean fuel buses, including buses that employ a lightweight composite primary structure and vans for use in revenue service and constructing or leasing clean fuel bus facilities or electrical recharging facilities and related equipment.

    - ***Section 5316 Job Access and Revenue Commute:*** Funding is provided for capital, planning and operating expenses to support services that transport low income individuals to and from jobs and activities related to employment, and for reverse commute projects.

    - ***Section 5317 New Freedom:*** This grant program supports capital and operating expenses for new public transportation services and new public transportation alternatives designed to assist individuals with disabilities, in addition to those programs designated by the Americans with Disabilities Act.

State Funding

States provide capital and operating assistance to transit agencies through intergovernmental grants typically derived from allocations of a state transportation trust fund, general fund appropriations or from tax revenues dedicated to transit. Florida's transit agencies receive a minimum of 15% of non-exempt deposits into the STTF. Over the course of the fiscal 2011-2015 Tentative Work Program, FDOT projects the transit program will receive 18.6% of STTF deposits. The STTF is funded from a number of revenue sources including motor fuels taxes, registration fees, title fees and rental car surcharges. Several of the gas taxes adjust annually based on the consumer price index.

In addition to allocations from transportation trust funds, transit agencies also receive dedicated tax sources that are imposed statewide or region specific. New York Metropolitan Transportation Authority's funding is largely derived from a combination of dedicated taxes imposed within the transit service area as well as an allocation of statewide taxes. California's transit systems receive allocations of a ¼% state sales tax.

5. Alternative Transit Financing Strategies

Transit agencies generally fund their capital expenses utilizing pay-as-you-go funds from Federal, State and Local sources. However, a number of agencies debt finance the acquisition of major capital assets such as buses, facilities and/or new major infrastructure investments such as a bus rapid transit or light rail project. Debt financing is applied when annual revenues are not sufficient for the cost effective acquisition or implementation of a project on pay-as-you-go basis, but can support debt service payments for bonds issued to finance capital project needs. Typical financing strategies transit agencies utilize include:

- **Dedicated Revenue Bonds:** Under this structure a transit agency with a dedicated revenue stream such as a sales tax, pledges the revenues it receives to the repayment of the bonds. Given investors typically want to be protected from a transit agency's operating obligations, these types of bonds are secured by all dedicated tax revenues, commonly referred as a gross pledge. After paying debt service and other obligations under the bond documents governing the security structure, surplus revenues are provided to the transit agency to support operating and pay-as-you-go capital needs. This is the most common debt structure used by transit agencies including Miami-Dade Transit. Pledged revenues that are derived from a stable and growing source and exceed annual debt service requirements generally by 2.0x-3.0x or greater are rated highly by the rating agencies generally from 'A'-'AA'.

- **Lease Revenue Bonds/Certificates of Participation:** Transit agencies use leasing/certificates of participation for the financing of new vehicles. Leases are not generally considered long term debt since annual payments to leaseholders is subject annual appropriation of funds by the transit agency. This structure is used by transit agencies if they do not have the authority to issue long term debt or as a strategy to manage their long term debt obligations relative to statutory and policy limits. Under a leasing structure the assets are acquired by a municipal leasing entity using the proceeds derived from the transaction. The lessor leases the assets to the transit agency and the transit agency makes leases payments to the lessor in an amount equal to debt service on the obligations. At the end of the lease term, the transit agency assumes full ownership of the assets. Such transactions can be undertaken through a private placement with a lease financing entity for transactions typically less than $100 million. Larger transactions are issued through the capital markets.

  Two types of leasing structures can be used: lease revenue bonds or certificates of participation ("COPs"). Both structures share similar characteristics with only some subtle differences. Lease revenue bonds, are limited obligations payable only from the lessor's right to receive lease revenues from the lease payments of the lessee. COPs effectively mirror the same structure as lease revenue bonds where the COPs are secured by the lease payments made by the lessee to the lessor and the security interest offered to investors is their proportionate interest in the lease payments.

  Under both leasing structures, the transit agency's obligation to make lease payments is subject to annual appropriation risk. As a result, leases are generally rated one to two notches below a dedicated tax revenue bond. To mitigate the risk of non-appropriation, the transit agency would covenant that it would include the amount of the annual lease payment in its budget each year so long as the lease is outstanding. In addition, the transit agency and lessor would pledge the assets as collateral to investors and in the event of a non-appropriation, investors would have a right to the assets and the transit agency could lose its ability to use them for service. Given the strong essentiality of the assets being financed, such as buses, investors would take comfort that the transit agency has a strong incentive to make appropriations. While, lease payments could be derived from all available revenues of a transit agency, investors would likely require that it identify a specific stream of revenues that would obligated to make the lease payments.

- **General Obligation Bonds:** Another security option is the issuance of a general obligation bond where a transit pledges it full faith, credit, revenues, resources and property to the full and timely payment of the bonds. General Obligation bonds are typical for states and local units of government that have tax raising authority. However, it is an uncommon security for transit agencies which are dependent upon external support and have revenue raising authority for fares which do not fully cover expenses and represent less than half of total revenues.

- **Debt Secured by FTA Formula Funds:** Transit agencies have issued debt secured by and payable from FTA formula funds, typically known as grant anticipation revenue vehicles ("GARVEEs"). GARVEEs have been employed by a number of agencies including NJ TRANSIT, Chicago Transit Authority, Los Angeles County Metropolitan Transportation Authority, Bay Area Rapid Transit and the Alaska Railroad. While there is a long track record of FTA funding support and GARVEEs are an accepted security structure, the key risk is the lack of, or delayed reauthorization of the Federal surface transportation program. This risk is perceived to be greater with longer maturity debt. A transit GARVEE structure with maturities that span three six year authorization periods—say maturities of 15-18 years are expected to have a rating in the 'A' category. Transit GARVEEs with longer maturities spanning additional authorization periods would likely be rated lower in the 'BBB' category. A GARVEE could be issued as bond or as a lease.

  Several transit agencies have also leveraged their New Starts funds through debt secured by amounts received from the FTA under a Full Funding Grant Agreement ("FFGA"). Debt terms for these structures are typically short at ten years or less based on conservative assumptions for the payout of New Start Funds under the FFGA. Given pledged revenues to bond holders are derived from grants received for one project, debt secured by New Starts funds are generally rated in the low 'A' category.

- **State Infrastructure Bank ("SIB") Loans:** A SIB is a revolving loan program that provides low cost credit assistance. FDOT's SIB consists of two separate accounts. The federally-funded SIB account is capitalized by Federal money matched with state funds; the state-funded SIB account is capitalized by bond proceeds and state money.

  The SIB can provide loans and other assistance to public and private entities carrying out or proposing to carry out projects eligible highway and transit for assistance under state and Federal law. SIB participation from the federally-funded SIB account is limited to projects which meet all Federal requirements pursuant and the applicable Federal guidelines. SIB participation from the state-funded SIB account is limited to a transportation facility project that is on the State Highway System or that provides for increased mobility on the state's transportation system, provides for intermodal connectivity. The state-funded SIB may also lend capital costs or provide credit enhancements for emergency loans for damages incurred to public-use transit and intermodal facilities that are within an area that is part of an official state declaration of emergency. The SIB can leverage funds through loans, and credit enhancement. The amount of any loan or other assistance may be subordinate to other debt financing for a project with a rating of "BBB" or higher SIB loans bear interest at or below market rates as determined by FDOT.

Volusia County used SIB loans valued at $12.5 million to finance its capital contribution for Sun Rail, planned to begin operation in 2013. One loan for $10.2 million will be paid back by 2020 and has two disbursements ($6.4 million disbursed in 2011 and $3.8 million disbursed in 2013). Another loan for $2.3 million will be disbursed in 2013 and paid back by 2018. A further SIB loan will be required to complete the Deland Station when it is added to Sun Rail service.

- **Transportation Infrastructure Finance and Innovation Act ("TIFIA") Loans:** The TIFIA credit program provides Federal credit assistance to nationally/regionally significant surface transportation projects including transit. TIFIA was designed to fill market gaps and leverage substantial public and private co-investment by providing supplemental and subordinate capital. Loans can finance up to 33% of eligible project costs. Repayment is flexible so long as principal repayment begins ten years after project completion and the loan is fully repaid 35 years after completion. The interest rate for TIFIA loans is attractive equal to the treasury rate for the term of the loan plus one basis point. Given the attractive repayment terms TIFIA offers, competition for credit assistance has increased and currently exceeds available capacity. While TIFIA loans have generally been for revenue producing projects such as toll roads, the program has also supported transit projects including a loan guarantee for WMATA and direct loans for Tren Urbano, the Trans Bay Transit Center and Staten Island Ferries.

6. Funding and Financing Evaluation Measures

The identification of a preferred set of funding and financing options to meet Votran's operating and capital needs is contingent upon their ability to meet several key objectives so that the strategies selected yield the necessary revenues, have the required legal framework to be implemented and are acceptable to the community. In the following study tasks, PFM will conduct a preliminary evaluation of the options presented in this report and identify a short list of strategies for further study as part of the development of the financial plan. Exhibit 12 presents the measures used to evaluate the options under consideration.

Exhibit 12
Funding and Financing Options
Evaluation Measures

Funding	Financing
Legal Authorization and Limitations	Legal Authorization and Limitations
Contributing Partner's Financial Capacity	Cost Effectiveness
Revenue Yield	Need for Credit Enhancement
Stability/Vulnerability to Economic Cycles	Financing Covenants
Taxpayer/Funding Contributor Equity	
Administrative Ease/Challenge to Collect Revenues	

The revenue strategies under consideration need to be authorized under State statute and if required obtain voter approval in order to be implemented. The options should yield the necessary revenues to support projected capital and operating needs and have long term prospects for sustainability. For revenues derived from intergovernmental grant contributions, it is important that the level of funding sought is within the financial capacity of the entity expected to provide the resources. While each tax based revenue option is subject to economic cycles, the preferred strategy should be based on a revenue source that is not subject to significant volatility in order to protect Votran's financial operations. In addition, the options should have the support of the community and elected officials, in part by demonstrating that those contributing the funding will be beneficiaries of improved transit services. Finally, the administrative burdens to impose and collect the revenues should be as low as possible and represent a reasonable incremental cost to collect existing tax sources.

To implement the financing options presented in this analysis, Votran will need to have the legal authorization to pledge the revenues to bondholders and issue debt. The selection of a preferred financing strategy is contingent upon one that minimizes borrowing costs while preserving financial flexibility. Interest costs are a function of market conditions, the debt structured offered, investor demand for the bonds offered, and the rating assigned to it. Achieving a high rating is contingent upon the economic strength and stability of the revenues pledged to bondholders, the coverage it provides relative to annual debt service, expected borrowing plans against pledged revenues, and covenants offered to investors to limit the issuance of debt. If debt service payments are secured by revenues derived from a narrow or volatile source credit enhancement through an additional pledge of a more credit worthy source may be required to reasonably achieve highest possible ratings and lowest cost of capital.