# TRANSIT FUNDING

## Summary of Findings

In 2012, Ohio transit agencies combined invested nearly $900 million annually in their communities; this estimate includes operating and capital spending and all funding sources, including federal, state, local, farebox and contact revenues. The vast majority of this – nearly 96% - is spent by the urban transit agencies.

The transit funding paradigm in Ohio changed considerably between 2000 and 2014. Federal funding methods and structures evolved in response to national economic conditions (2008 recession), political priorities and the elimination of Congressional earmarking. State funds also decreased substantially during this time for many of the same reasons. In some areas, local revenues helped meet the shortfall but not in others.

Key findings from the funding trend analysis show that **Funding is the largest and most significant challenge facing transit agencies in Ohio.** Challenges include:

- **Uncertainty** over future funding persists with MAP-21 set to expire in October 2014.
- **Erosion of purchasing power** as federal funding programs is funded at the same level they were in previous years. As inflation erodes the purchasing power, transit agencies are able to buy less service with the same amount of money.
- **Loss of earmarks** requires that transit agencies restructure how they fund capital purchases, such as vehicles. New funding programs suggest that transit agencies should "save" annual grants to accumulate enough money for large purchases, such as vehicles.
- New federal programs include **competitive grants**, such as the TIGER program to fund new service development and large capital projects**.** The grants are quite competitive, with the number of projects requesting funding outpacing the amount of money available.
- **Fewer state resources** are available to fund transit**.** The State of Ohio directs roughly $28 million annually to transit systems in the state, of which less than $8 million is raised in the State of Ohio. State funds account for just 4% of transit spending statewide.
- Local communities are funding transit but **the ability of communities to raise money locally is not equally distributed** across the state and not always in line with the need for service.
- Without state and local funds, **federal funds are going unspent.** As of July 2014, there is nearly $21 million in federal funds available to Ohio's transit agencies that cannot be spent due to a lack of local match. This is a significant opportunity cost for many of Ohio's small urban and rural communities.
- **Replacing vehicles is a critical short term problems.** The lack of opportunities to fund capital projects created a significant backlog in the need for vehicles in Ohio. Introduction

# INTRODUCTION

Public transportation in the U.S. is evolving as the transit industry responds to changing community demographics, preferences for housing and lifestyles, as well the impact of new technologies. These are all external forces influencing both how people view public transit as well as how they want to travel. In addition to these larger socio-economic trends, transit agencies are also being impacted by changes in the way services are funded. As the federal government recovers from the recession and begins to implement new transportation legislation, such as the Moving Ahead for Progress in the 21st Century (MAP-21) Act, the funding practices and policies are likewise changing. This is true not only for federal agencies, such as the Federal Transit Administration (FTA), but also state and local agencies.

**Public transportation represents roughly 11% of the U.S. Department of Transportation $90.9 Billion Budget. (U.S. DOT)**

Transit, consistent with all form of transportation open to the public, is developed with support from government resources, typically including local, state, and federal sources. User fees are also part of a typical funding program. All of these funding sources are used for both service operations and capital projects. The federal government has traditionally been an important funding resource for transit agencies, especially for developing new services in urban areas and supporting transit service in rural communities. The federal government annual investment in transit nationally is roughly $10.7 billion, and in 2014, the federal government provided approximately $173.2 million[1] to transit systems in the State of Ohio.

Ohio has a total of 61 transit agencies, including 27 urban agencies and 33 rural agencies (as of June 2014). The combined expenditures of these 61 agencies are more than $893 million including both capital projects and service operations[2]. This memo explores how the overall funding picture for transit services and transit service development has changed since 2000, with a specific focus on changes observed over the past few years. The memo considers federal and state resources as well as how systems are using and developing local resources. It also examines how these changes are creating opportunities and challenges for transit service development in Ohio.

[1] Federal Transit Administration, Allocation by Formula and Discretionary Program by State FY 1998 - 2014

[2] ODOT Status of Transit Database, 2012

# FEDERAL TRANSIT FUNDING

## Historical Perspective

Congress develops priorities for the nation's transportation investments, including in public transit, and articulates them through federal legislation that sets funding levels, program goals and issues guidance for how funds are allocated and how they can be used. The current federal transportation legislation, Moving Ahead for Progress in the 21st Century (MAP-21) Act allocated $21.3 billion for public transit over its two-year authorization period. Most programs set funding amounts through a formula based on factors such as population and ridership; other programs distribute funding according to a competitive grant process.

Historically, transit agencies have received federal funds through a combination of formula programs as well as through Congressional earmarks. Earmarks allowed Congress to specify which projects and agencies would receive funding, exerting considerable control over federal spending and program administration. The practice of earmarking funds began in the 1980s and became more widespread in the 1990s and 2000s.

Many transit agencies around the country benefitted from earmarks, and for several years earmarks were an important source of funds for agencies, especially for large capital expenditures such as purchasing vehicles and developing new services or systems. As the use of earmarks increased across all government programs, however, the practice of directing funds to specific projects and institutions became controversial and in 2011, Congress largely stopped using them. For many transit agencies, the elimination of earmarks means funding programs follow a more predictable, transparent, and arguably more equitable process. However, the loss of earmarks has also means many transit agencies no longer have access to large, one-time grants and instead are receiving funding as smaller annual grants.

Another important source of funds for transit agencies in the past several years was the American Recovery and Reinvestment Act (ARRA). ARRA, also known as the Stimulus Bill, was enacted in February 2009 in response to the national recession. The objective of ARRA was to create new jobs and retain existing ones through spending on infrastructure, education, health, and renewable energy, as well as extend tax incentives and unemployment benefits to individuals (among other provisions). ARRA authorized $787 billion in funding, of which $48 billion was invested in transportation and approximately $8.4 billion for transit projects[3]. Transit systems in the State of Ohio received roughly $185 million in ARRA funding. Roughly 77% of went to urban systems, 16% to rural systems and the remaining 7% to fixed guideway infrastructure. ARRA also started the Transportation Investment Generating Economic Recovery (TIGER) competitive grant program, which remains in place today.

[3] Federal Transit Administration

With ARRA and earmarks largely exhausted or eliminated federal resources for transit agencies in Ohio have changed. MAP-21 replaces discretionary or earmarked programs with funds distributed according to formulas and competitive grants. In absolute numbers, the amount of money available has increased marginally, but instead of being distributed as large ad hoc grants, funding is now distributed as smaller, annual payments. This will require some changes in the way transit agencies plan and make large capital purchases.

As a state, Ohio benefited from both the earmarking process and the ARRA program. Data from Ohio suggests the impact of the change in revenue streams is having a significant impact on vehicle replacement programs. As of FY2014, the State of Ohio had slightly more than $350 million in backlogged vehicle needs[4].

# MOVING AHEAD FOR PROGRESS IN THE 21ST CENTURY (MAP-21)

MAP-21 is the current authorizing legislation for federal transit and highway funding programs. It was enacted in July 2012, went into effect October 1 of that year, and was authorized to guide transportation funding until September 30, 2014. While MAP-21 did not significantly affect overall federal funding levels for transit, it made significant changes to program structures and associated requirements. In particular, MAP-21 allocates a larger share of the available funds by formula, consistent with the federal government-wide trend away from Congressional earmarking. Furthermore, MAP-21 places increased emphasis on public transportation safety and the preservation of existing resources, known as State of Good Repair.

This section first presents the transit funding programs authorized under MAP-21 and then highlights the most significant changes associated with MAP-21 compared with the previous transportation legislation.

## Federal Transit Administration Funding Programs

With a handful of exceptions, FTA programs are designed for transit agencies operating in either urban or rural areas. FTA funds, as with nearly all federal programs, require that local entities contribute matching funds. Generally speaking, FTA programs will support up to 80% of capital projects and 50% of operating projects in non urbanized areas[5]; therefore, local transit agencies must raise roughly 20% of the cost of any capital project and 50% of the cost of operating services. Matching funds may consist of funds provided from any resource, except funds provided by the USDOT.

MAP-21 allocated $10.72 billion to public transportation programs in FY 2014, which are administered by the FTA and distributed to states and transit agencies nationally (see Figure 1). The trend for federal funding levels is one of slow growth; slight increases in funding levels observed in 2009 and 2010 reflect ARRA funds, which was a single investment but required several years to implement (see Figure 2).

[4] Rolling Stock Assessment, Ohio Transit Needs Study, May 2014

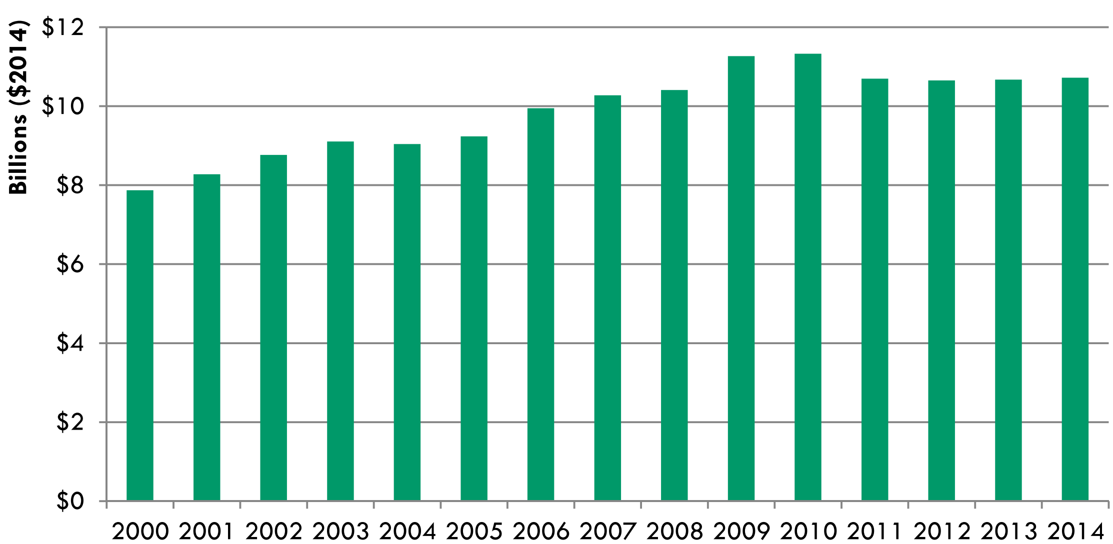
[5] FTA provides only limited support for service operations in urbanized areas. Some exceptions apply (see Appendix A).

Figure 1: Federal Transit Administration (FTA) Programs, MAP-21 FY 2014

| FTA Section Number | Program Name | Funding Amount (Millions $) |
|---|---|---|
| 5303 | Metropolitan Transportation Planning | 106.5 |
| 5303 | Pilot Program for TOD Planning | 10.0 |
| 5304 | Statewide Transportation Planning | 22.9 |
| 5307 | Urbanized Area Formula | 4,833.4 |
| 5309 | Capital Investment Grants (New Starts) | 1,923.5 |
| 5310 | Enhanced Mobility of Seniors and Individuals with Disabilities | 257.5 |
| 5311 | Rural Areas Formula | 618.4 |
| 5311(b)(3) | Rural Transit Assistance (RTAP) | 10.6 |
| 5311(c)(1) | Public Transportation on Indian Reservations Formula | 25.0 |
| 5311(c)(1) | Public Transportation on Indian Reservations Discretionary | 5.1 |
| 5311(c)(2) | Appalachian Development Public Transportation Assistance | 20.0 |
| 5337 | State of Good Repair | 2,150.1 |
| 5339 | Bus and Bus Facilities | 427.8 |
| | Other (Research, Training, Technical Assistance, Administration | 313.2 |
| | | 10,724.1 |

Source: Federal Transit Administration

Figure 2: Annual Appropriations of All FTA Programs, 2000 – 2014




Source: Federal Transit Administration, "FTA Allocations for Formula and Discretionary Programs by State FY 1998-2014 (Excel)", http://www.fta.dot.gov/12853_88.html

### FTA Formula Funding Programs

As noted, the FTA administers several programs that guide and direct funding. Of these, all but three programs are distributed according to formula (known as formula programs). These programs provide basic financial support for transit services:

- **Section 5307 Urbanized Area Formula** (about 45% of available funds) provides funding to transit agencies in urbanized areas with populations over 50,000. In urbanized areas with populations of 200,000 or more, funds are distributed to a designated recipient, which is typically a regional transit agency or, in some cases, a metropolitan planning organization (MPO). For urbanized areas with populations between 50,000 and 199,999, 5307 funds are distributed to the state; the state, in turn, provides the funds to individual transit agencies.

  Transit agencies can spend 5307 resources on capital projects, planning, and preventative maintenance, but in most cases service operations are excluded. Some exceptions are available for urban areas of less than 200,000 population; these agencies may use Section 5307 funds for operating assistance and in limited cases urban areas with populations of 200,000 or more may use Section 5307 funds for operations if they operate 100 or fewer vehicles during peak periods.

- **Section 5311 Nonurbanized (Rural) Area Formula** (about 9% of available funds) funds rural transit capital, operating and planning activities. Section 5311 funds are distributed to State Departments of Transportation (DOTs) which then allocate funds to rural transit operators. A small portion of the program is set-aside for formula allocation to Indian tribes, intercity bus services and the Appalachian Development program.

- **Section 5310 Enhanced Mobility for Older Adults and People with Disabilities** (roughly 2% of available program funds) are designated for use in urban (80%) and rural areas (20%). The funds are intended to support services for older adults and people with disabilities. At least 55% must be used for capital projects planned, designed, and carried out to meet the special needs of seniors and individuals with disabilities, including mobility management activities. Up to 45% of 5310 funds may be used for operating assistance. Funds may also be used for program administration and technical assistance.

- **Section 5337 State of Good Repair** (roughly 20% of available funds) is new under MAP-21 and is intended to support existing fixed guideway (rail, streetcar, and BRT) services that have been operating for at least seven years. It replaces the former Section 5309 Fixed Guideway Modernization Program.

- **Section 5339 Bus and Bus Facilities** (roughly 4 percent of available funds) replaces the former discretionary Section 5309 Bus and Bus Facilities program. Funding is available for capital purposes, including preventative maintenance; operating assistance is not an eligible expense.

These programs are distributed based on a variety of formulas set by law and are broadly designed to allocate resources based – depending on the program - on factors which include population, population density, number of low-income individuals, elderly individuals, individuals with disabilities, and a number of transit service characteristics (revenue vehicle miles, route miles, etc.

The FTA also provides funds to support administrative, management and planning activities. Funds are provided to states and MPOs to manage the FTA programs. There are also relatively small amounts of funds allocated to support training, technical assistance and research activities.

### FTA Capital Investment Grant Program

FTA's most significant remaining discretionary funding source is the Section 5309 Capital Investment Grants program. Capital Investment Grants make up about 20% of MAP-21's available funds and are provided for the design and construction of major capital projects like rail and bus rapid transit systems. The program provides for slightly different procedural requirements (as discussed below) for New Starts (new fixed guideways costing more than $250 million and/or seeking more than $75 million in Section 5309 program funds) and Small Starts (new projects which cost less than $250 million and require less than $75 million in Capital Investment Grants). In addition, MAP-21 expands the eligibility of Section 5309 to ca In Ohio; the Euclid Corridor Transportation Project (ECTP) (now Health Line Bus Rapid Transit) in Cleveland provides an example of a New Starts Project in the State of Ohio. The ECTP was awarded $135 million in New Starts funds in 2002. New Starts funds represent roughly 59% of the project capital costs, which were estimated at $228m during project planning.

**In Ohio, the Euclid Corridor Transportation Project (now Health Line Bus Rapid Transit Line) in Cleveland provides an example of a New Starts Project. The Euclid Corridor Project was awarded $135 million in New Starts funds, representing roughly 59% of the $228m estimated project capital costs. The Greater Cleveland Regional Transit Authority was awarded New Starts Funds in 2002. (FTA)**

### Procedural Changes for Major Capital Projects under MAP-21

MAP-21 included two significant planning and procedural changes that impact how projects funded under the Capital Investment Grant program are funded, as follows:

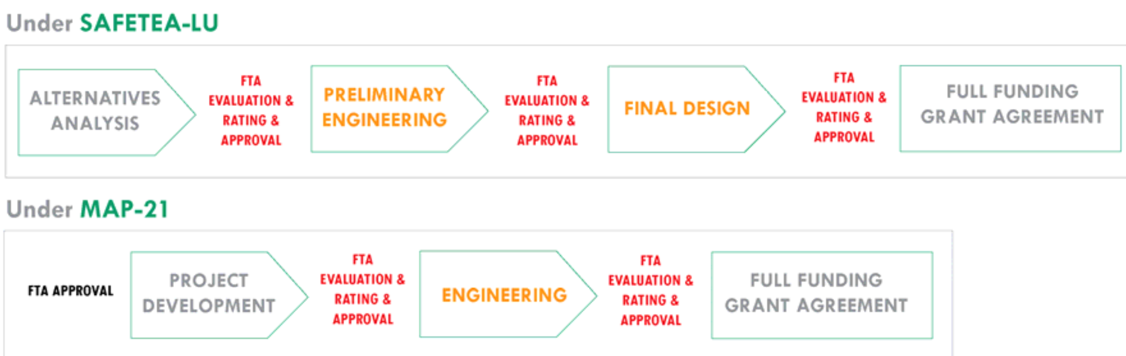
- *Eliminating the requirement for a stand-alone alternatives analysis* in response to perceptions that the alternatives analysis process was redundant with the transportation planning and National Environmental Policy Act (NEPA) processes.[6] This change gives local project sponsors greater flexibility to define a planning and project development process that meets their needs. Special discretionary funding to pay for alternatives analysis is no longer available, but federal funding for planning studies is available through FTA formula programs and FHWA's STP program (as described below). However, the planning of public transportation must compete with other capital needs.

[6] The Alternative Analysis Program provided discretionary grants to states, authorities of the states, metropolitan planning organizations, and local government authorities to develop studies as part of the transportation planning process. These studies included: an assessment of a wide range of public transportation alternatives designed to address corridor or subarea; an initiation of the environmental review process; sufficient information to provide project justification and local financial commitment required under the New Starts and Small Starts program; the selection of a locally preferred alternative; and the adoption of the locally preferred alternative.

While not required by law, many transit project sponsors have continued to carry out an alternatives analysis type of corridor planning study to support local decisions on mode and alignment, and so that local decisions do not need to be revisited in the NEPA process. One Ohio example is GCRTA's Red Line-Health Line Extension Study, currently underway.

— *Streamlining the approval process* for Section 5309 Capital Investment Grant projects prior to receiving funding. As shown by Figure 3, MAP-21 reduced the number of FTA approval points for New Starts projects during the planning and project development process (Small Starts also benefits from fewer approvals). This streamlining is intended to reduce the time it takes for transit agencies to plan, design, and construct major capital transit projects (see Figure 3).

Figure 3: FTA Project Development Requirements




## U.S. Department of Transportation Funding

In addition to funding programs administered by the FTA, both the Federal Highway Administration (FHWA) and USDOT administer grants and programs that can be used to support transit projects and services. States and metropolitan planning organizations, for example, are permitted to "flex" funds by using a portion of their FHWA allocations to invest in public transportation instead of roadways. The "flexible" funding programs include the Surface Transportation Program (STP), the Congestion Mitigation/Air Quality Improvement Program (CMAQ), and, in limited instances, the National Highway Performance Program (NHPP). On a national basis, the practice is fairly common with 42 states flexing some FHWA funds to support transit; however, in most cases states the amount of money flexed is small[7]. In 2012, Ohio flexed $20 million of its highway funds to public transit. ODOT will continue to flex $20 million of FHWA funds annually as a budgeted line item until 2015. MPOs also are allowed to flex FHWA funds to transit; many MPOs in Ohio take advantage of this opportunity.

The U.S. Department of Transportation also administers a handful of competitive grant programs that transit agencies or state departments of transportation (state DOTs) may submit projects for consideration. Currently, one of the largest competitive grant opportunities is the TIGER program that provides funding for transit, road, rail and port projects. As noted earlier, TIGER grants first became available under ARRA; Congress has appropriated TIGER funds in each year since

[7] General Accounting Office (GAO), November 2012

enacting ARRA, including $600 million in FY 2014. The program is very competitive – in FY 2013, 585 applications competed for $474 million and just 52 projects were awarded grants. In Ohio, four TIGER grants have beenawarded since the program's inception:

- 2009: $20 million for the Kent Central Gateway Multimodal Transit Facility, Portage Area Regional Transit Authority (PARTA).
- 2010: $10.5 million for University-Cedar Rapid Transit Station Improvements, Greater Cleveland Regional Transit Authority (GCRTA) .
- 2011: $12.5 million for the Mayfield Transit Station, GCRTA
- 2011: $10.92 million for the Cincinnati Streetcar, Southwest Ohio Regional Transit Authority (SORTA)

Finally, USDOT provides financial assistance in the form of loans and credit enhancements through the Transportation Infrastructure Finance and Innovation Act (TIFIA) and the Railroad Rehabilitation and Improvement Financing (RRIF) Program. These programs offer advantageous interest rates and terms that makes them advantageous compared to other forms of borrowing. TIFIA is administered by FHWA's Office of Innovative Program Delivery, but highway, transit, railroad, intermodal freight, and port improvements are eligible for assistance. To date, TIFIA has not been used in Ohio but other large transit projects such as the Regional Connector in Los Angeles used TIFIA loans as part of their financing plans. RRIF loans are administered by the Federal Railroad Administration (FRA) and are available for commuter rail and intercity rail projects as well as private railroads.

## FEDERAL TRANSIT FUNDING – IMPACT ON OHIO

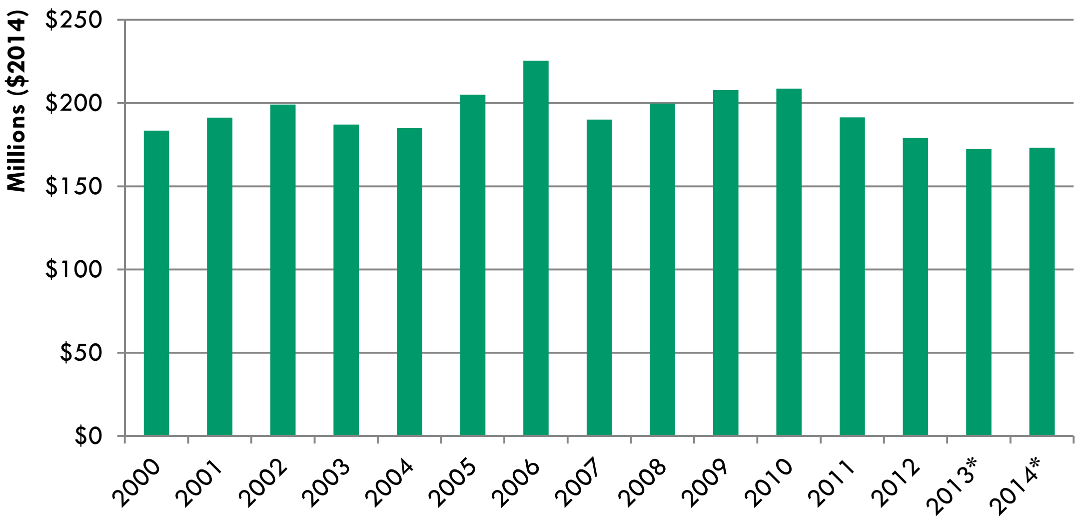
FTA funding is an important resource for transit agencies in Ohio, providing roughly $175 million in funding in 2014 (see Figure 4). Total funding hovered around the $200 million mark for several years, until 2011, when the total amount of funding started to decline slightly. Funding in 2014 is the lowest level of federal funds provided to Ohio in the 14 years considered.

Changes in the amount of funding overall to Ohio reflect a variety of changes in national priorities and federal transportation legislation as well as decisions made in communities across Ohio. One of the programs substantially changed by MAP-21 was Section 5309. Under the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), Section 5309 was a three-part program, which included a) discretionary New Starts/Small Starts "fixed guideway" projects; b) formula Fixed Guideway Modernization; and c) discretionary Bus and Bus Facilities. As noted previously, Section 5309 remains in MAP-21 as a discretionary program for New Starts, Small Starts, and Core Capacity projects. However, the Fixed Guideway Modernization component of former 5309 is now Section 5337 State of Good Repair and the discretionary Bus and Bus Facilities program has been recast by MAP-21 Section 5339 as a formula program.

Restructuring the Bus and Bus Facilities program in a program with funds allocated by formula has had a significant impact on federal transit funding in Ohio. The size of the average annual allocation between 2006 and 2010 was $22 million; this was the height of Congressional earmarking. In 2011 and 2012, the program remained discretionary but FTA administered it as a competitive program, with Ohio securing $12.1 million and $14.4 million each respective year. With MAP-21's formularization of the program, Bus and Bus Facilities funding for the State has averaged less than $11 million per year. the size of the average annual allocation fell to $12.1

million. Consequently, transit agencies in Ohio are receiving roughly half the capital funding they had previously.

Figure 4: FTA Funding Allocations to Ohio (All Programs), 2000-2014




Source: Federal Transit Administration, "FTA Allocations for Formula and Discretionary Programs by State FY 1998-2014 (Excel)", http://www.fta.dot.gov/12853_88.html

Note: Data from 2013 and 2014 does not include discretionary grants, but as of June 2014, Ohio has not received any FTA discretionary funding.

## FTA Funding in Ohio – Urban Systems

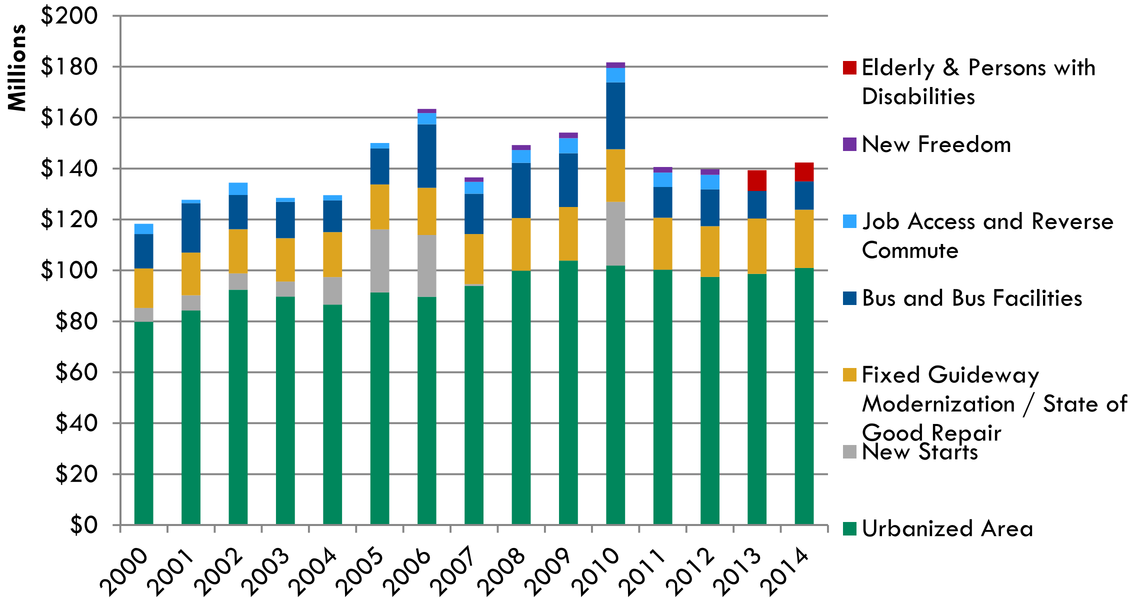
In 2014, FTA allocated roughly $135 million to urban transit systems in Ohio (see Figure 5). The largest share of this amount was associated with the urbanized area formula program (Section 5307), which has increased slightly over time. Annual changes in the overall amount of funding available largely reflect the amount of discretionary funding awarded to Ohio, including funding from both the Bus and Bus Facilities and New Starts programs. This funding was allocated to Cleveland in the early-mid 2000's for the Euclid Avenue BRT line.

Another change in the funding levels for urban systems is associated with Section 5310 (Mobility Enhancements for Older Adults and People with Disabilities), Section 5316 (Job Access and Reverse Commute) and Section 5317 (New Freedom). Under SAFETEA-LU, Section 5310 and Section 5317 funds were distributed to the state department of transportation for administration to both the urban and nonurbanized areas. Section 5316, however, was allocated directly to urbanized area. MAP-21 eliminated the Job Access and Reverse Commute (JARC) program, but increased the national Section 5307 program and made JARC activities an eligible expense[8]. MAP-21 also folded Section 5317 funds into the Section 5310 program and allocated the program to urban and nonurbanized areas. As a result, urbanized areas with populations of 200,000 or more are now eligible to receive a direct apportionment of funds; this means they have more and new resources under their control, although they now must administer the program. ODOT

[8] The Job Access and Reverse Commute program, also known as JARC, was eliminated in the MAP-21 program. More information is provided in Appendix A.

continues to administer the program for rural areas and urban areas with populations between 50,000 and 199,999.

Figure 5: FTA Funding Allocated to Urban Transit Systems in Ohio (All Programs), 2000 – 2014




Source: Federal Transit Administration, "FTA Allocations for Formula and Discretionary Programs by State FY 1998-2014 (Excel)", http://www.fta.dot.gov/12853_88.html

Note: Does not include New Freedom funding.

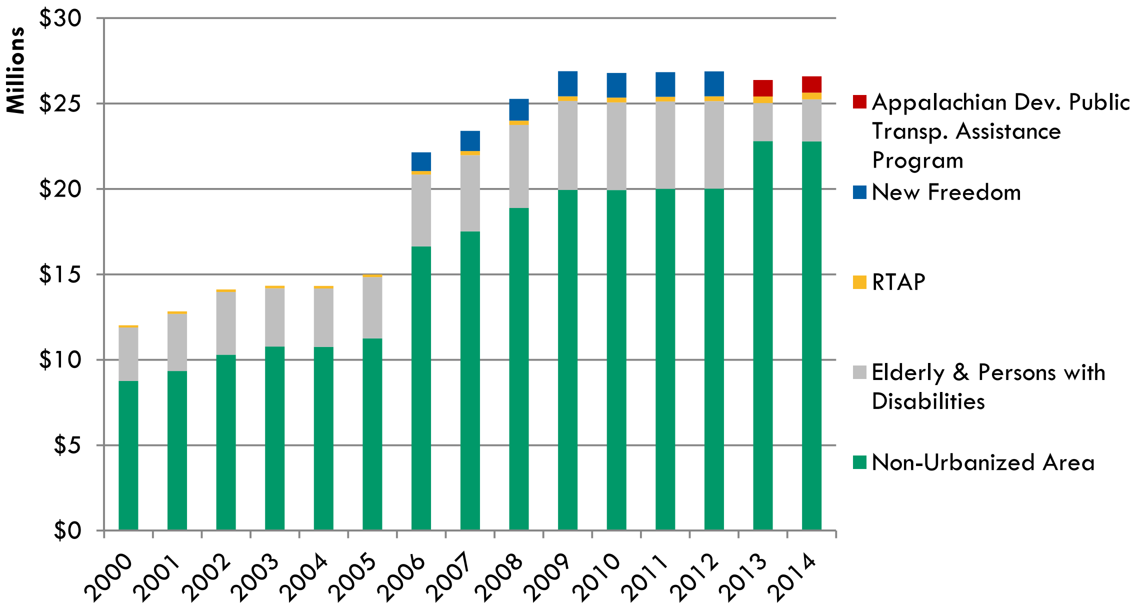
## FTA Funding in Ohio – Rural Systems

The amount of FTA funding available to Ohio's rural system remained relatively flat or slow growth between 2000 and 2014 (see Figure 6). At the beginning of the century, the federal rural program was relatively small, providing roughly $10 to $15 million in funding for all rural systems; by 2014, the 5311 program provided roughly $26 million in funding.

Consistent with urban systems, changes made to Section 5310, Section 5316 and Section 5317 under MAP-21 have an impact on rural transit funding in Ohio. Section 5316, as discussed, was eliminated and the resources were folded into the Section 5311 program. Section 5317 was also eliminated with funding folded into the Section 5310 program.

The major change, therefore, is in how the program is administered. As discussed, under SAFTEA-LU, the FTA allocated Section 5310 funds to state governments, so the Ohio Department of Transportation (ODOT) managed the program. Under MAP-21, the FTA allocated Section 5310 funds to large urbanized areas directly, while ODOT manages the program for small urbanized and rural areas. The impact of this change, however, is not easily understood because the data does not tell us how Section 5310 and Section 5317 were distributed among urban and rural systems. For purposes of the graph (Figure 6), both funding sources were included as rural programs because they were administered by ODOT.

Figure 6: FTA Funding Allocated to Rural Transit Systems in Ohio (All Programs), 2000 – 2014




Source: Federal Transit Administration, "FTA Allocations for Formula and Discretionary Programs by State FY 1998-2014 (Excel)", http://www.fta.dot.gov/12853_88.html

## TRENDS

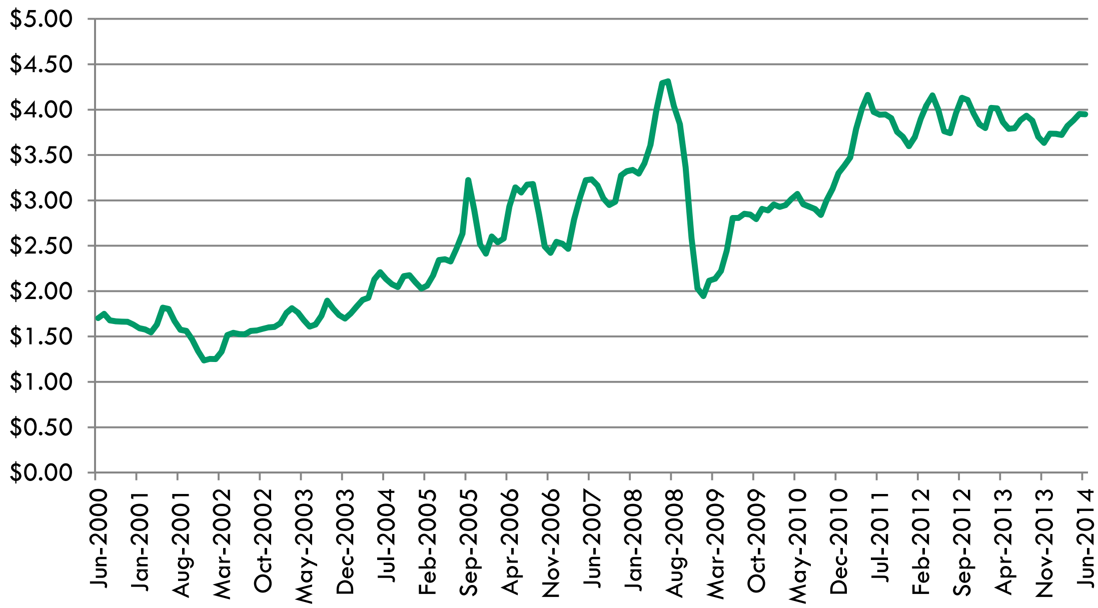
Since 2000, FTA funding has increased steadily but fairly slowly, with a couple of exceptions (see Figure 7). Growth has been slower since 2010, when ARRA funds ran out and growth in transit funding slowed considerably. As a result, in the past few years, transit agencies have received roughly the same amount of funding each year as they did in the prior year.

The challenge with level funding is that it fails to account for inflation and/or changes in the cost of goods in services. The cost of transit services is largely driven by wages, fuel and insurance, all of which tend to increase annually. Transit is a very labor intensive service with human resources required to operate and maintain vehicles. The cost of labor almost always increases annually in line with inflation and cost of living adjustments (COLA). Fuel costs are highly variable; while they have been fairly steady recently, the retail price of a gallon of gasoline has more than doubled between 2009 and 2014[9] (see Figure 7). In addition, the cost of insurance, including both liability insurance for service operations and health insurance for agency staff has increased considerably.

As a result, transit agencies almost always experience annual cost increases. Consequently, the purchasing power of FTA funding decreases as the cost of goods and services increases, in line with inflation. Consequently, last year's funding is not sufficient to fund this year's services, with the impact compounded over time (see Figure 8). As a result, while the FTA more than doubled the amount of money provided in 2014 as compared with 2000, inflation has eroded the purchasing power of the funds.

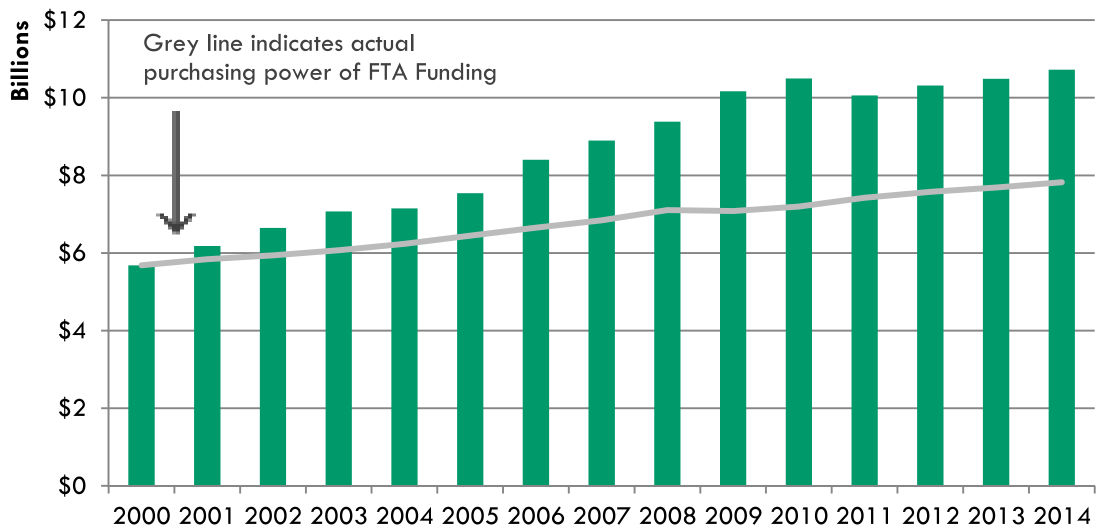
[9] U.S. Energy Information Administration, Gasoline and Diesel Fuel Update

Figure 7: Average Monthly Price of Formulated Retail Gasoline in United States – All Grades, 2000 - 2014




Source: US Energy Information Administration, http://www.eia.gov/

Figure 8: FTA Annual Apportionments (All Programs) and Inflation, 2000 – 2014



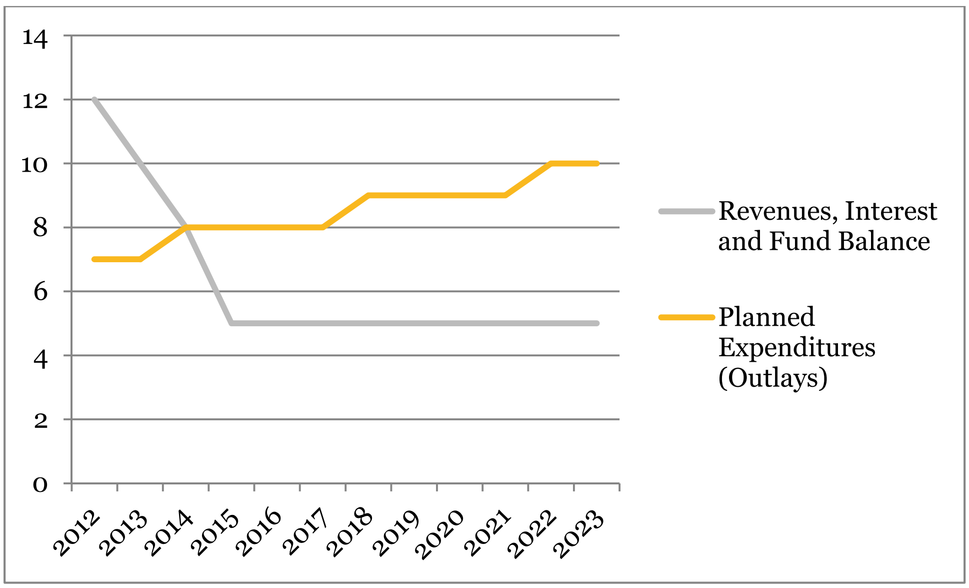

Source: US Inflation Calculator, http://www.usinflationcalculator.com/; Federal Transit Administration, "FTA Allocations for Formula and Discretionary Programs by State FY 1998-2014 (Excel)", http://www.fta.dot.gov/12853_88.html

Note: Inflation is based on the latest US government Consumer Price Index (CPI) data published on May 15, 2014. The CPI is just one measure of the buying power of the dollar over time and attempts to measure inflation as experienced by consumers in their day-to-day living expenses.

# FUTURE FEDERAL LEGISLATION

MAP-21, as discussed, will end in October 2014. As the federal government seeks to develop a new transportation bill or reauthorize MAP-21, the largest challenge it faces will be identifying a stable source of funding. Historically, the transit programs have been funded from the Transit Account of the Highway Trust Fund, which is supported by various user fees such as taxes on motor fuels. The 18.4 cents per gallon gas tax has not been changed since 1993. In recent years, as auto travel has declined and as vehicles have become more fuel efficient, these user fees have been unable to fully support the highway and transit programs (see Figure 9). Congress has tapped into the General Fund and found the necessary offsets elsewhere in the budget to support the programs on a short term basis. The size and duration of the next authorization depends upon the willingness of Congress to increase the gas tax and/or enact new funding sources to sustain and grow the programs.

Figure 9: Projections of Transit Account Fund Balance (in Billions of $), 2012 – 2013




Source: Congressional Budget Office, 2013

# STATE FUNDING FOR TRANSIT

State funds have been a major source for transit funding in Ohio. Like federal funding, the amount of funds Ohio designates to support public transportation has changed significantly over the past decade. In 2000, the State of Ohio contributed roughly $43 million in general revenue funds to public transportation. By 2014, funding levels are at approximately $28 million, with about $6 million (20%) provided through general revenue funds (GRF) and $22 million (80%) provided by flexing FHWA funds to transit programs. Decreases in state funding have limited the ability of local areas to support transit operations. One indicator of the funding challenge is Ohio has not had any new transit agencies form since 2004.

## Funding Trends

Historically, Ohio funded public transportation by dedicating GRF to transit and allocating the funds based the governor and state legislature's priorities. These priorities were articulated as part of five transit programs:

— **Rural Transit Program** provides assistance to Ohio's rural transit agencies. The program includes separate funding for operating and capital programs.

— **Urban Transit Program** provides assistance to Ohio's urban transit agencies. Unlike the rural program, the urban transit program provides funds without specifying use to capital or operating.

— **Public Transportation Discretionary and Transit Capital Programs** (both defunct as of 2002) provided discretionary resources for capital projects. Transit agencies submitted projects that were reviewed, scored, and selected on a competitive basis.

— **Elderly and Disabled Fare Assistance** which allows agencies to extend ADA-mandated half price fares for senior citizens and persons with disabilities during off-peak periods into peak periods. The program is divided into funds to support rural and urban agencies.

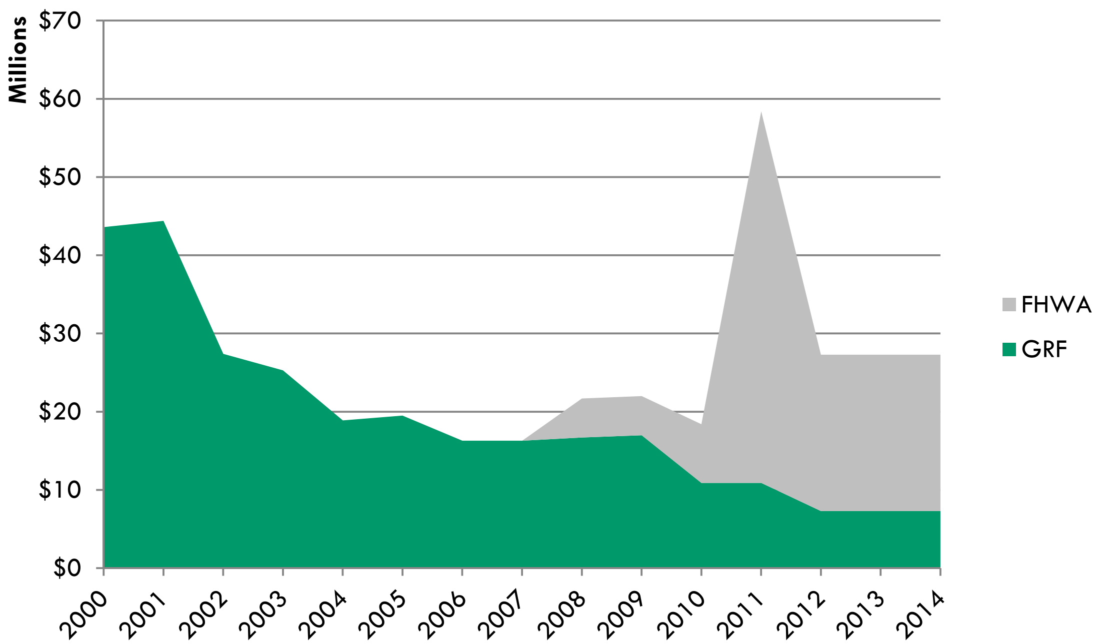
— **Coordination Grants** (defunct as of 2009) provided funds to encourage service coordination initiatives between public transit operators and human service transportation agencies.

The trend for funding transit in Ohio, however, has been one of steady decline decreasing from more than $44 million to the current level of approximately $7.3 million in 2013. This represents a decrease of nearly 85% over the past 14 years. Generally speaking, funding declined gradually, with three significant exceptions:

- A 38% decrease in funding implemented between 2001 ($44 million) and 2002 ($27 million)
- A 36% decrease in funding between 2009 ($17 million) and 2010 ($10.9 million
- A 33% in funding between 2011 ($10.9 million) and 2012 ($7.3 million).

As GFR revenues were cut from the transit program, ODOT began flexing FHWA funds to transit agencies as one strategy to help address the shortfall. The program began with relatively modest transfers of $5 million in 2008, increasing to $7.5 million in 2010. In 2012, Ohio embarked on an ambitious transit development program, flexing some $48 million in FHWA funds to support transit. This initiative, the Next Generation Transit Partnership Program, allocated $15 million to replace vehicles, $25 million for capitalize operations and $10 million for new service development (see Figure 10). The initiative was not long-lived but did raise the amount of FHWA funds flexed to transit over the long term; currently ODOT flexes roughly $20 million to transit service development.

Figure 10 State Funding Trend: 2000-2014

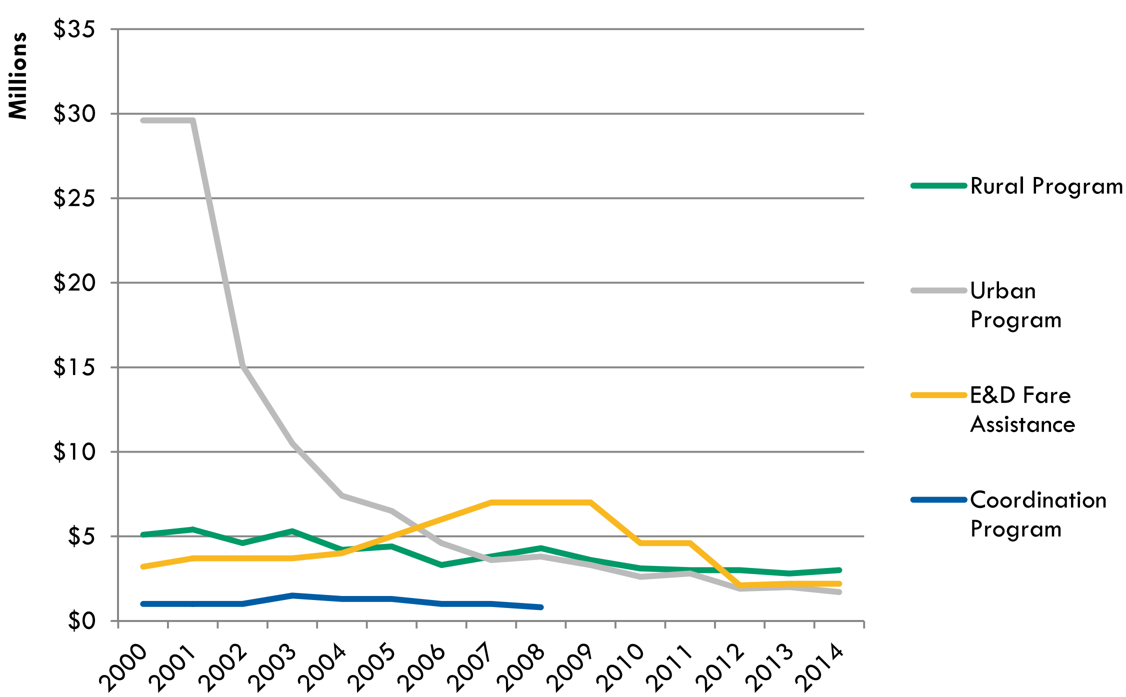



Source: ODOT data adapted by Parsons Brinckerhoff

As the total amount and sources of state transit funding changed, so did the program priorities. Resources devoted to staffing and administration of the transit program, for example, were reduced significantly, from $1.2 million in 2000 to $345,000 in 2014. In addition, discretionary programs used to support investments in new services as well as support vehicle purchases (including both replacement and expansion vehicles), for example, were eliminated in 2012, as part of the first large scale reduction in state spending. Another programmatic change is elimination of the Coordination Program. Although funded at a relatively small level overall (roughly $1 million annually), the program was distributed as small grants that funded new initiatives for up to three years. Other changes in the way transit programs were funded and organized include (see also Figure 11):

- **Significant reduction in the use of GRF to support urban transit services.** In 2001, GRF funds provided nearly $30 million to urban operators; funding was roughly between 2001 and 2002 and then eroded gradually over time. In 2014, GRF revenues accounted for just $1.6 million to support urban operators. It is worth noting, however, that all of the FHWA funds flexed to transit are dedicated to the urban transit operators.
- **Changes in the way urban and rural transit programs are funded.** The rural transit program was reduced by 50% between 2000 and 2014. In 2000, $4.2 million was allocated to the rural transit operating program; by 2014, funding was reduced to $3.1 million. This compares with the urban program, which was reduced from $29m in 2000 to $1.7m in 2014. Although urban transit services are now supported with FHWA funds flexed from highway programs to transit. Even with ODOT flexing funding, the urban transit program lost roughly 24% of its funding.
- **Funding for the Elderly and Disabled Fare Assistance Program also experienced less significant cuts, especially for rural operators.** In 2000, the E&D Fare Assistance program was funded with $3.3 million; by 2014, the program allocates roughly $2.2 million, about 30% fewer resources. This compares with an 85% reduction in state funding overall. As part of cutting spending on this program, urban operators were no longer reimbursed for their fare assistance programs.
- **Elimination of funding for rural transit capital projects.** While the rural funding for operations remains, funding for transit capital projects was cut entirely. The capital program was funded with about $1 million in 2000, but the program was eliminated in 2006, restored for one year in 2008 and then eliminated again.

Figure 11 ODOT Transit Programs Funding Trend: 2000-2014



## State of Ohio Transportation Review Advisory Council (TRAC)

Funding for "major new" capacity transportation projects—highways, transit, and freight—is allocated by through the Transportation Review Advisory Council (TRAC). TRAC was created by the Ohio General Assembly in 1997 to create and manage an evaluation process for major new transportation projects. Major projects are defined as projects costing more than $12 million and critical to the mobility, economic development and quality of life for the citizens of Ohio. Members are appointed by the Governor, the Speaker of the Ohio House of Representatives, and the President of the Ohio Senate and consist of a combination of private and public sector representatives.

State and local entities, including ODOT but also counties, municipalities and transit authorities apply for consideration and funding from TRAC. The TRAC evaluates and ranks projects based on a specified set of criteria that seek to balance Ohio's transportation priorities. The funding source for TRAC is federal and state gas tax revenues and the process is intended to fund construction rather than planning or feasibility analysis. TRAC funds projects based on three tiers; Tier 1 are projects recommended for funding t construction within the upcoming four years; Tier 2 projects are recommended for additional planning work and although the planning work cannot be funded by TRAC, all planning work must be completed before TRAC will fund them. TRAC has no obligation to fund Tier 2 projects when the planning analysis is completed; and Tier 3 multiphase and longer range projects that may have some portions funded as Tier 1 and others in Tier 2.

In FY 2014, TRAC committed $1.1 billion for 50 projects. All are roadway and freight projects although one project, the Mahoning Road Transit Corridor in Stark County (Canton), has a transit component (shelters, passenger amenities, bus lanes). The Mahoning Road Transit Corridor project has a budget of $15 million, or about 1.4% of the statewide TRAC fund totals. In previous years, TARC has funded five transit projects:

- Cleveland Euclid Corridor (Health Line BRT line)
- Cincinnati Government Square transit center
- Columbus downtown multimodal transportation terminal,
- Cincinnati Streetcar[10]
- Akron Multimodal Transportation Center

To date, the Euclid Corridor, Government Square, and Akron Multimodal projects have been constructed; the Columbus multimodal center is no longer a TRAC-funded project.

TRAC's project scoring policies and procedures have been modified, most recently in 2011. While the Mahoning Road Transit Corridor has a major transit component, no stand-alone transit projects have been funded since the Akron transportation center in 2007. TRAC's current evaluation policy reflects ODOT's strategic initiatives by focusing on system preservation while de-emphasizing future land-use impacts and multi-modal approaches. Scoring changes included a replacement of land use measures with economic performance measures, greater emphasis on roadway-type performance measures such as capacity of the conveyance and reduction in vehicle miles traveled, and greater emphasis on non-ODOT match. As a result, only the largest of transit projects may be in the competitive range while site-specific projects such as transit centers may no longer score as high as they once did.

[10] Funding for the Cincinnati Streetcar was withdrawn by TRAC in 2011; at that time, the Mahoning Corridor project was added to the Tier 1 funding list. The Columbus multimodal terminal was not pursued.

# LOCAL FUNDING FOR TRANSIT

## OVERVIEW

In addition to federal and state funds, revenues raised locally are also an important part of how transit agencies are funded in Ohio. Indeed, for many agencies including the largest urban transit authorities, local revenues account for most of the funding that supports the system. Overall in Ohio, local revenues – including passenger fares and contract revenues, but also contributions from local taxpayers - account for roughly 85% of the total investment in Ohio's transit industry. As mentioned, local funding represents a larger share of the agency budget in urban areas (local funding accounts for 86% of all funding) and somewhat smaller share in rural areas, where local funding accounts for roughly half of transit agency budgets.

Figure 12 summarizes funding sources by transit agency type as reported by transit agencies to ODOT in the Status of Transit Database based on their budgets and accounting systems. As a result, the estimates listed do not match the funds allocated by the FTA or State of Ohio. Discrepancies between the sources reflect several factors, including time lapses between when funding programs and allocations, especially for competitive grant programs as well as time lapses between the award of competitive grant funds and project initiation. Finally, the gaps may also reflect differences in fiscal year calendars.

Figure 12 Ohio Transit Funding by Agency Type and Source 2012 (in millions)*

| | Urban | Rural | Total |
|---|---|---|---|
| FTA Funds (all programs) | $212.5 | $14.7 | $227.2 |
| State Funds (GRF) | $17.5 | $3.6 | $21.1 |
| Local Contributions (all sources) | $619.4 | $18.8 | $638.2 |
| Other Revenues | $6.3 | $0.3 | $6.6 |
| Total – all resources | $855.6 | $37.5 | $893.1 |

Source: ODOT Status of Transit Database

Note: Data shown is compiled from agency submissions to ODOT and may not match exactly with FTA estimates of funding provided.

### Local Matching Requirements

The importance of local funding, in part, reflects the federal requirement that the use of federal funds must be matched by local revenue. FTA allows matching funds from any non-USDOT source; this means that transit agencies cannot use FHWA funds to match FTA grants, but they generally can use federal funds provided by other departments, especially funds provided by the Department of Health and Human Services (DHHS) and Medicaid. State funds can also be used to match federal funds as can money raised locally through taxes, fees, contracts and revenues generated through programs such as advertisements placed on buses and transit stops. Fares can also be used a source of local revenues for urban areas. In rural areas, fare revenues can be considered as matching resources, but federal contributions to operating revenues are calculated net of fares, so the total agency operating budget is reduced by the amount of money raised through fares and federal resources are available to for half of the remaining operating costs.

The inability to raise enough local funds to match the federal resources available to is a real challenge for many communities in Ohio, especially transit agencies operating in small urban and rural areas. As of July, 2014, the ODOT had roughly $21 million in federal funds that were obligated for spending in Ohio, but had not yet been spent due to a lack of matching funds. Nearly all of the unspent federal funds are associated with the primary FTA funding programs, such as Section 5310 and 5311 as well as the JARC and New Freedom programs. Some of the unspent funds represent the balance or 'left over' funds from a completed project, while other unspent funds represent projects and programs that were never implemented because local transit operators were unable to raising matching funds.

**Transit operators that do not have a dedicated local funding stream are challenged not only with raising local funds but also the timing of how funds are awarded. Sometimes transit managers will secure local funds at the same time as they apply for federal grants. By the time federal funds are awarded, for any number of reasons, local funds are no longer available.**

## LOCAL TRANSIT FUNDING SOURCES

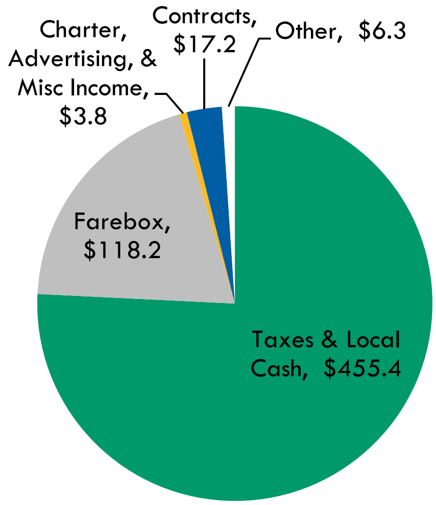
The main sources of local revenues to support transit in Ohio include:

- Passenger fares
- Sales and property taxes
- Earnings taxes
- Contract revenues
- Local government contributions from the general revenue fund
- Other miscellaneous sources, such as advertisement revenues

For agencies that have dedicated revenue sources, like sales and property taxes, this funding is by far the most important revenue source for the agency. Cleveland, Akron and Columbus, for example, fund between 70% and 80% of their operating budget with local tax revenues. Mid-sized agencies, such as Western Reserve (Youngstown) and Stark County (Canton), also receive between 70% and 80% of their operating budget from local dedicated tax revenues. Farebox and contract revenues are also important revenue sources and account for another 10% to up to 30% of operating revenue (see also Figure 13).

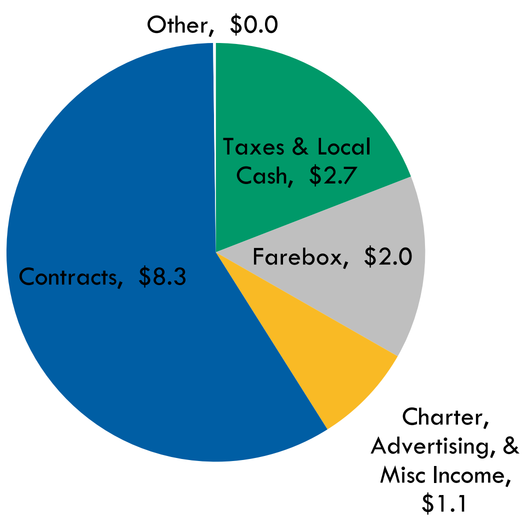
Ohio's smaller transit agencies including agencies that operate fixed route, deviated fixed route and demand response service are more likely to rely on contract revenues and contributions from local governments to support their systems. These systems operate in counties that tend to have a much smaller tax base, making raising large sums through property or sales taxes challenging. Fares are also a less significant revenue source, in part because these systems carry significantly fewer riders but also because fares collected on demand response services are a much smaller portion of the service costs as compared with fares on fixed route service. Instead contract revenues are a more important revenue source for small transit agencies and agencies operating demand response service, especially as compared with Ohio's larger systems (see Figure 14).

Figure 13 Local Revenue Sources Used by Ohio's Urban Transit Agencies, 2012 (in $ millions)




Source: State of Transit Database, 2012

Figure 14 Local Revenue Sources Used by Ohio's Rural Transit Agencies, 2012 (in $ millions)




Source: State of Transit Database, 2012

## Local Taxes – Sales and Property Taxes

The State of Ohio permits local jurisdictions to levy dedicated sales taxes and/or property taxes to support local transit services. Sales and property taxes are a fairly common source of revenue for transit agencies in the larger and more urbanized parts of Ohio. Currently, eight transit systems in Ohio are funded through dedicated taxes. Transit taxes are significantly less common in the rural areas with only five counties dedicating local tax revenue to transit authorities. Of the transit authorities receiving non-sales tax tax revenue, four are urban systems (Clermont, Eastern Ohio, Steel Valley and Toledo Area) and one is a rural system (Chillicothe) (see Appendix A).

The advantage of all dedicated revenue sources is control over funding streams. Agencies that receive general revenue contributions, by contrast, are not guaranteed funds and must work with county and city officials annually to get funding, often competing for very limited resources with several equally important local programs. The disadvantage of relying on local taxes is that tax revenues, especially sales tax revenues, fluctuate with the overall economy; for example during the most recent recession many transit agencies experienced a considerable loss in the amount of revenue raised. The funding stream therefore, is not always as predictable and as reliable.

Currently eight counties have dedicated sales taxes to support transit service (see Figure 15). In addition, there are a handful of municipalities that are not geographically in one of these counties, but still pay into the tax because they are part of the transit agency's service area (i.e. portions of the City of Columbus in Delaware County or the City of Reynoldsburg in Licking County, which also pays into the COTA system). Combined these taxes raise on the order of $400 million annually, with Cleveland accounting for roughly half of all revenues[11].

Table 15 Ohio Dedicated Taxes for Transit/Use of Sales Tax for Transit 2014

| County | Transit Tax | County Tax | Total State and Local Sales Tax | Transit Agency |
|---|---|---|---|---|
| Cuyahoga | 1% | 1.25% | 8% | Greater Cleveland Regional Transit Authority (GCRTA) |
| Franklin | 0.5% | 0.75% | 7% | Central Ohio Transit Authority (COTA) |
| Lake | 0.25% | 1% | 7% | Laketran |
| Mahoning | 0.25% | 1% | 7% | Western Reserve Transit Authority (WRTA) (Youngstown) |
| Montgomery | 0.5% | 1% | 7.25% | Greater Dayton Regional Transit Authority |
| Portage | 0.25% | 1% | 7% | Portage Area Regional Transportation Authority (PARTA) |
| Stark | 0.25% | 0.5% | 6.5% | Start Area Regional Transit Authority (SARTA) (Canton) |
| Summit | 0.5% | 0.5% | 6.75% | METRO Regional Transit Authority (Akron) |

Source: Ohio Department of Taxation, October 2013

[11] Ohio Department of Taxation

The property tax option for transit is employed in Lucas and adjacent Wood counties. The Toledo Area Regional Transit Authority (TARTA) levies an 2.5 mil property tax on residents of the City of Toledo and six other communities in Lucas and Wood Counties: Maumee, Ottawa Hills, Rossford, Sylvania, Sylvania Township, and Waterville. TARTA's membership originally included two other communities, Perrysburg and Spencer Township, and its charter required a unanimous vote of all member communities to allow a community to withdraw from membership in the agency. In 2011, a state legislation was passed that changed the Ohio Revised Code to permit member communities of transit agencies of TARTA's type to withdraw from agency membership through a referendum vote. Perrysburg voters chose to leave TARTA in March 2012; and Spencer Township voted to leave in November 2013. The City of Oregon, a suburban community adjacent to Toledo, has failed to pass a referendum to join TARTA.

## Earnings Tax

The Southwest Ohio Regional Transit Authority (SORTA) in Cincinnati is the only large urban system not locally funded through sales and property taxes. Instead, SORTA's local funding is derived through the City of Cincinnati, through an 3/10 of one percent earnings tax dedicated to transit that was passed by city voters in 1972. Most of the revenues are transferred to SORTA, based on an agreement between the City and SORTA that was approved that same year. As part of the agreement, SORTA submits an annual budget request to the City. Although the City of Cincinnati does have budget control over SORTA, all changes in fares must be approved by Cincinnati City Council. In addition, the agreement stipulates that any significant new service outside the City cannot be funded through the earnings tax. As a result, SORTA has contracts with Butler, Clermont, and Warren counties for service in those areas. There are no similar arrangements with Hamilton County or individual communities outside the City within Hamilton County.

The earnings tax was considered to be a temporary, emergency measure that would be replaced by a dedicated sales or property tax in Hamilton County. However, attempts to pass countywide transit taxes were not successful; the most recent attempt was in 2002.

## General Revenues

Many counties in Ohio fund transit through contributions made to transit agencies from local general fund revenues. This is a fairly common form of funding for transit agencies in Ohio, especially in rural and small urban areas.

The advantages of using general revenue funds to support transit are that it demonstrates a community's commitment to funding transit service. The disadvantage is that general funding is typically not dedicated to transit, so transit managers must advocate for the funding every year and must compete for funds among other worthwhile investments. General fund revenues tend to be less stable compared with other sources of funding.

## Contract Revenues

Contract revenues typically refer to revenues earned through contracts with human service agencies, universities and large institutions to provide transit services. Contract revenues tend to be more common in rural and small communities, where transit agencies will work with human service agencies to provide a single set of transportation services. Contracts with universities, which often allow students and associated university personnel to ride transit without paying a fare, tend to be more common in larger urban communities. More information on transportation service coordination and how transit agencies maximize contract revenues is provided in a separate document produced as part of this study.

### Fares

All transit agencies in Ohio charge fares to passenger using their services and use fare revenues as part of their local funding sources. Fares for fixed route services are as high as $2.25 and as low as $1.00 for a one-way adult cash fare. Demand response services not including fares charged for ADA paratransit services range from $0.75 up to $20.00 for longer distance trips. Overall, fares accounted for 20% of all transit agency revenues in 2012. The urban transit operators earned 20% of their revenues through fares, while rural agencies earned 14%.

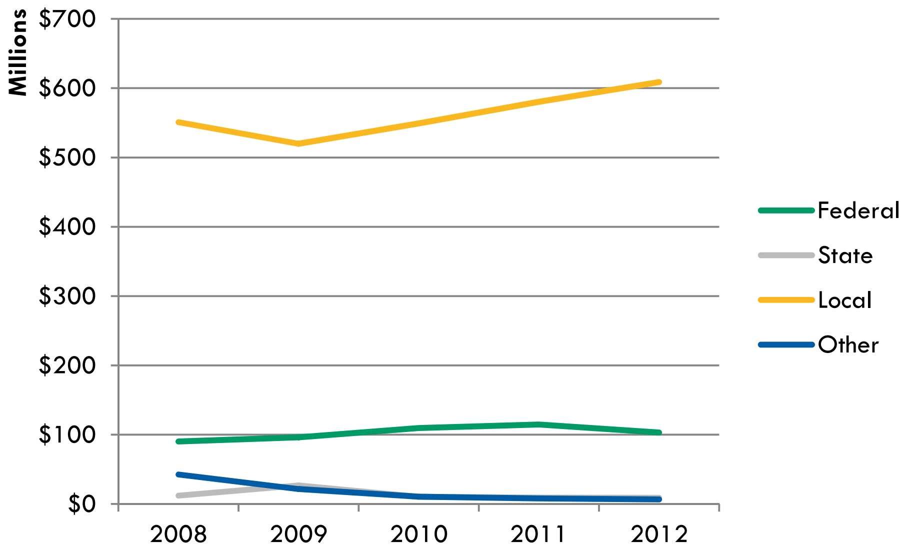
### Other sources

Most of Ohio's transit agencies earn additional revenue through a variety of programs, such as advertisement sales to help cover operating costs and match federal funds. For the most part, however, these resources represent a much smaller portion of the overall budget.

## TRENDS

The trends in transit funding demonstrate the increased importance of local funding sources between 2008 and 2012, as state funds diminish and federal funds remain relatively flat (see Figure 16). The trends for urban and rural systems are similar; the investment in transit service dropped slightly between 2008 and 2010, likely in response to the economic recession affecting nearly all of the United States. As communities and transit agencies started reinvesting in their services, most of the growth is attributable to local resources (see Figures 17 and 18). The data shows rural systems did see an increase in the amount of federal funds available, growth that is roughly evenly matched by increases in local funding.

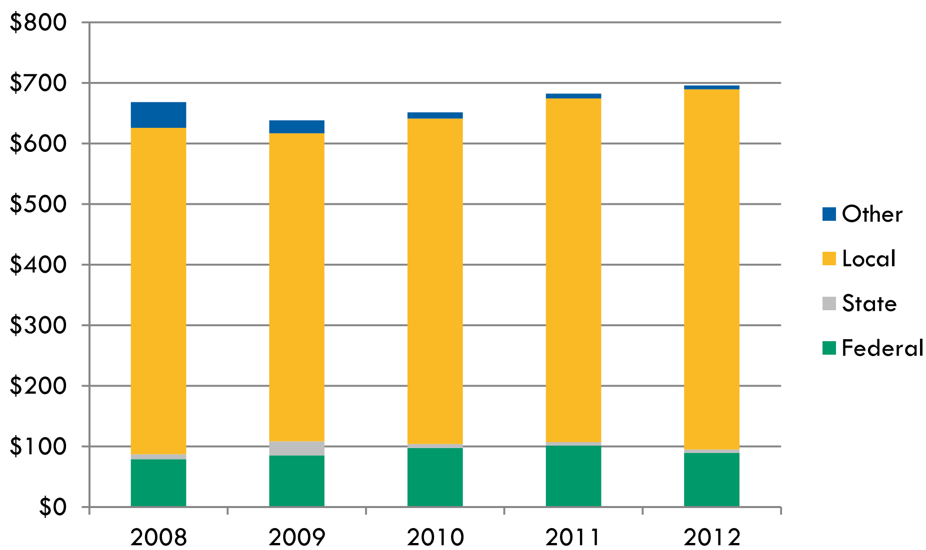
Figure 16 Ohio's Total Transit Resources by Funding Source, 2008 to 2012[12]




Source: ODOT State of Transit Database

Note: Local revenues include tax revenues, general revenue fund contributions, farebox revenue, and contract revenues

Figure 17 Ohio's Urban Transit Systems: Total Investment by Funding Source, 2008 to 2012[13]



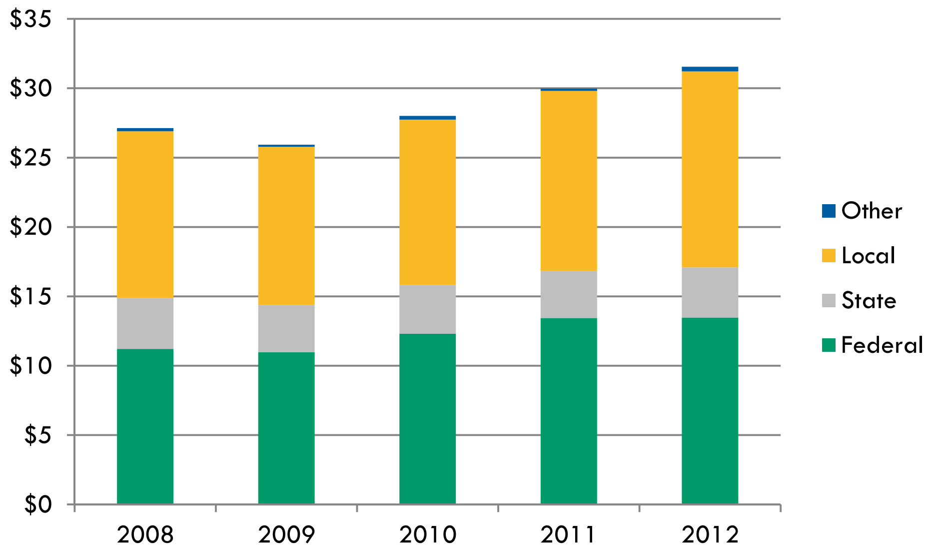

Source: ODOT State of Transit Database

Note: Local revenues include tax revenues, general revenue fund contributions, farebox revenue, and contract revenues

[12] Local revenues include operating resources only

[13] Local revenues include operating resources only

Figure 18 Ohio's Rural Transit Systems: Total Investment by Funding Source, 2008 to 2012[14]




Source: ODOT State of Transit Database

Note: Local revenues include tax revenues, general revenue fund contributions, farebox revenue, and contract revenues

[14] Ibid

# OPPORTUNITIES AND CHALLENGES

## SUMMARY OF FINDINGS

The transit funding paradigm in Ohio changed considerably between 2000 and 2014. Federal funding methods and structures evolved in response to national economic conditions (2008 recession) and the elimination of Congressional earmarking. State funds also decreased substantially during this time. In some areas, local revenues helped meet the shortfall but not in others. Some highlights drawn from the previous data analysis include:

- **MAP-21 was authorized for a mere 24 months and expires in October 2014.** As of June, 2014, only the Obama Administration has issued its reauthorization proposal, making an extension of MAP-21 a near certainty. As a result, the future of transit funding is not understood, making long term planning or decision making challenging. These challenges are exacerbated by the fact the Highway Trust Fund has not kept pace with transportation spending.
- **To a large extend FTA programs are being level funded.** While the amount of money in absolute terms has increased, when considering inflation and the purchasing power of the funds, the ability to fund transit services has declined overtime. Providing the same amount of money every year for transit service, in practice means less money available to operate service.
- **The U.S. DOT administers competitive grants, such as the TIGER program to fund new service development and large capital projects.** The grants, however, are quite competitive, with the number of projects requesting funding and the amount of money requested outpacing the available resources.
- **Eliminating earmarking requires that transit agencies restructure how they fund capital purchases, such as vehicles.** The federal government changed the way funding is distributed, providing smaller annual grants instead of larger, single grants. This suggests that transit agencies must "save" annual grants to accumulate enough money for large purchases, such as vehicles. This is a different approach to vehicle replacement planning and requires agencies to change the way they do capital planning. Many transit agencies in Ohio have fallen behind on vehicle purchases. (S*ee also the Rolling Stock Assessment produced as part of this study).*
- **The amount of state funds used to support transit is low.** The State of Ohio directs roughly $28 million annually to transit systems in the state. Of this money, less than $8 million is raised in the State of Ohio. In addition, state funds account for just 4% of the total investment in transit services statewide.
- **State funds available to support transit have decreased dramatically since 2000**. In total state funding decreased by 85%. Some of the lost revenue was balanced by flexing federal highway funds to transit, but total funding levels are still down by $15 million.

- **Communities are using local funds to support transit.** Among the 61 counties where in Ohio where transit service is available, all counties but eight provide some local funding support for transit agencies. The largest and most urban communities raise local revenues through local sales and property taxes, but many smaller communities transfer funds from their general fund revenues to support transit.

## Challenges:

- **The clearest challenge facing Ohio's transit industry is the availability of funding.** Nearly all of the traditional ways transit systems have raised funds are stressed. The federal government's ability to fund transit is compromised because the Highway Trust Fund has not kept pace with inflation or spending needs. "Bridge" programs like ARRA or Congressional earmarking of FTA discretionary funding that helped fund larger projects are no longer available. Trends suggest the federal government is increasingly looking to states and local communities to help bridge the funding gaps. In Ohio, the lack of state support has shifted more and more of the funding burden to local communities. Communities with fewer resources overall tend to both have a greater portion of its population relying on public transit and simultaneously have fewer resources to support transit.
- **Local communities contribute significant revenues to support transit services, but the ability of communities to raise money is not equally distributed across the state and not always in line with the need for service**. While some transit agencies have become adept at raising funds from multiple sources, including through service contracts with universities, human service agencies and large employers, these opportunities are not available to communities in all parts of the state. As a result, some of the most economically stressed communities, especially rural areas and communities with high poverty rates tend to be the least able to raise local revenues. (*See also Market Analysis, a technical memo on county level socio-economic and demographic characteristics, produced as part of this study.)*
- **The lack of funds reflect challenges faced by the State of Ohio at many levels – declining population overall, increasing poverty, and an increasingly older demographic profile.** These factors create a perfect storm where federal funds decrease in proportion to population loss, even as the remaining population has characteristics suggesting an increased need for transit. Thus even as the need for transit increases, it is more difficult to raise funds. In addition, economic development trends underscore the importance of investments in transit service to help stimulate growth, attract and retain younger populations and get and sustain people in the workforce. (*See also Market Analysis, a technical memo on county level socio-economic and demographic characteristics, produced as part of this study.)*
- **Without local funds, federal funds are going unspent.** There is nearly $21 million in federal funds available to Ohio's transit agencies that cannot be spent due to a lack of local match. Not being able to leverage federal funds is a significant opportunity lost for the State of Ohio and many small urban and rural communities.
- **One of the most critical short term problems is replacing vehicles.** The lack of opportunities to fund capital projects created a significant backlog in the need for vehicles in Ohio. Many transit agencies have postponed purchasing new vehicles for several years creating a large need for vehicles. While this problem is not unique to Ohio, the need in

Ohio is significant and to date there is no clear path to address this issue. (S*ee also the Rolling Stock Assessment produced as part of this study).*

## Opportunities

Transit funding trends suggest a bleak and uncertain future, especially with regards to federal sources. At the same time, there are opportunities that would help strengthen and support Ohio's transit agencies.

- **Expand state funding to leverage other resources-** Level funding at the federal level and declining state funds mean support for transit service in Ohio have decreased substantially over the past decade. One potential strategy would be to for the State of Ohio to increase state assistance to transit. There are several different ways state transit funding could be expanded to both leverage additional federal resources and substantially address transit capital and service development.
  - **Capital purchases** – as outlined in the Rolling Stock Assessment technical memo, Ohio's transit agencies have a backlog of 1,300 vehicles that are beyond their useful life. The total cost of this backlog amounts to $353 million. While the State of Ohio is unlikely in a position to help local agencies with such a significant investment, it could develop a multi-year plan to address vehicle needs and use state funds to help leverage federal resources and begin to address vehicle replacement needs. If, for example, the State of Ohio could commit to a five year vehicle replacement program that uses state support to encourage local investment and draw on federal support, a $10 million annual investment could address the backlog in five to seven year period (including vehicles that reach their useful life during the investment planning period).
  - **Matching funds** – being able to find and rely on matching funds for FTA program is a real challenge for transit agencies around the country, and especially in Ohio. The inability of find and rely on matching funds means many transit agencies in Ohio have been reluctant or unable to develop (or enhance) new services, even if FTA program funds may be available. As a result, the State of Ohio has been not only been losing out on some federal funding opportunities, transit systems have also not developed at the same rate as some of its peers. One potential improvement, therefore, would be to develop a matching fund program to match FTA programs such as New Starts and Small Starts.
- **Develop policies and guidance for vehicle leasing and financing** – As discussed, Ohio has a large backlog of capital needs and the new federal approach to funding is through smaller, but more consistent annual grants means many transit agencies will have to reconsider how the develop and manage their fleets. Leasing and financing vehicles, for example, may be a more appropriate strategy that purchasing them outright. ODOT may consider how it can support transit agencies to develop vehicle leasing and financing programs, including developing legal and cost benefit analyses of the different options available to different size and types of transit agencies. (*See also Rolling Stock Technical Memo*)
- **Make it easier for smaller systems to access contract revenue (HST coordination)** – some of Ohio's small urban and rural transit agencies have successfully used contracts with human and medical service providers to leverage FTA funds and create transit services with small amounts of local funding. While some communities have been very successful at developing contract revenues, others have struggled. The

ability of Ohio to help support and encourage service coordination, and more specifically funding coordination would help leverage federal funds to strengthen local services. (*This issue is also being explored in other technical memos, with more detailed strategies developed.)*

- **Create new State funding programs to support the State's transit priorities.** Historically, ODOT offered small incentive type grant programs to encourage transit agencies to develop programs, projects and services that would enhance agency operations. Among the most success of these programs was the Coordination Grant program, which provided a relatively small amount of total funds (roughly $1 million annually) and distributed these funds throughout the state as small grants (roughly $50,000 per year) to encourage transit agencies to develop partnerships locally. The program was highly successful so that Ohio was among the leaders nationally in terms of coordination. The program also encouraged entrepreneurship among the local agencies. The State of Ohio may want to consider developing a similar type of program to support other priorities, such as coordination but also grants to enhance technology and public information, or develop regional services.

# Appendix A Local Transit Funding Sources by Agency

| Transit Agency | Dedicated Sales Tax | Other Local Tax | General Fund Revenues | Contract Revenues | Passenger Fares | Misc. |
|---|---|---|---|---|---|---|
| **Urban Agencies** | | | | | | |
| Allen County/Lima | | | ✓ | ✓ | ✓ | ✓ |
| Butler County | | | ✓ | ✓ | ✓ | ✓ (Service Agreements) |
| Central Ohio Transit Authority | ✓ | | | | ✓ | ✓ |
| Clermont County | | ✓ (Senior Levy) | | ✓ | ✓ | ✓ |
| Eastern Ohio Regional Transit Authority | | ✓ (Property Tax) | ✓ | | | ✓ |
| Cleveland | ✓ | | | | ✓ | ✓ |
| Dayton | ✓ | | | | ✓ | ✓ |
| Greene County | | | ✓ | ✓ | ✓ | ✓ |
| Laketran (Lake County) | ✓ | | | ✓ | ✓ | ✓ |
| Lawrence County | | | | ✓ | ✓ | ✓ |
| Licking County | | | ✓ | ✓ | ✓ | |
| Lorain County | | | ✓ | | ✓ | ✓ |
| Akron | ✓ | | | ✓ | ✓ | ✓ |
| Miami County | | | ✓ | ✓ | ✓ | ✓ |
| Middletown Transit System | | | ✓ | ✓ | ✓ | ✓ |
| Newark-Heath Earthworks | | | ✓ | | ✓ | ✓ |
| Portage Area Regional Transportation Authority | ✓ | | | ✓ | ✓ | ✓ |

| Transit Agency | Dedicated Sales Tax | Other Local Tax | General Fund Revenues | Contract Revenues | Passenger Fares | Misc. |
|---|---|---|---|---|---|---|
| Richland County Transit | | | ✓ | ✓ | ✓ | ✓ |
| Sandusky | | | ✓ | ✓ | ✓ | ✓ |
| SORTA | | ✓ (Earnings Tax) | | ✓ | ✓ | ✓ |
| Springfield City | | | ✓ | ✓ | ✓ | ✓ |
| Stark Area RTA (Canton) | ✓ | | | | ✓ | ✓ |
| Steel Valley RTA (Steubenville) | | ✓ (Property Tax) | | | ✓ | ✓ |
| Toledo Area RTA | | ✓ (Property Tax) | | ✓ | ✓ | ✓ |
| Trumbull Transit Systems | | | ✓ | | ✓ | |
| Washington County | | | ✓ | | ✓ | |
| Western Reserve Transit Authority (Youngstown) | ✓ | | | | ✓ | ✓ |
| Rural Agencies | | | | | | |
| Ashland Public Transit | | | ✓ | ✓ | ✓ | ✓ |
| Ashtabula County Transportation System | | | ✓ | ✓ | ✓ | ✓ |
| Athens Transit | | | ✓ | | ✓ | ✓ |
| Bowling Green Transit | | | ✓ | | ✓ | ✓ |
| Carroll County Transit System | | | | ✓ | ✓ | ✓ |
| Champaign Transit System | | | | ✓ | ✓ | ✓ |
| Chillicothe Transit System | | ✓ (Income Tax) | | ✓ | ✓ | ✓ |
| Columbiana County/Community Action Rural Transit System | | | ✓ | ✓ | ✓ | ✓ |
| Crawford County Transportation Program | | | ✓ | ✓ | ✓ | ✓ |
| Delaware Area Transit Agency | | | ✓ | | ✓ | ✓ |

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|---|---|---|---|---|---|---|
| Fayette County Transportation Program | | | ✓ | ✓ | ✓ | |
| Geauga County Transit | | | ✓ | ✓ | ✓ | ✓ |
| Greenville Transit System | | | ✓ | ✓ | ✓ | ✓ |
| Hancock Area Transportation Services | | | ✓ | ✓ | ✓ | ✓ |
| Harrison County Rural Transit | | | ✓ | ✓ | ✓ | |
| Huron County Transit | | | ✓ | ✓ | ✓ | ✓ |
| Knox Area Transit | | | | ✓ | ✓ | ✓ |
| Lancaster Public Transit System | | | ✓ | ✓ | ✓ | ✓ |
| Logan County | | | ✓ | ✓ | ✓ | ✓ |
| Logan Transit System (City of Logan) | | | ✓ | ✓ | ✓ | ✓ |
| Marion Area Transit | | | ✓ | ✓ | ✓ | ✓ |
| Medina County Transit | | | ✓ | ✓ | ✓ | ✓ |
| Monroe County Public Transportation | | | ✓ | ✓ | ✓ | ✓ |
| Morgan County Transit | | | ✓ | ✓ | ✓ | ✓ |
| Ottawa County Transportation Agency | | | ✓ | ✓ | ✓ | ✓ |
| Perry County Transit | | | | ✓ | ✓ | |
| Pickaway Area Rural Transit | | | | ✓ | ✓ | ✓ |
| Pike County/Community Action Transit System | | | | ✓ | ✓ | ✓ |
| Transportation Resources for Independent People of Sandusky County | | | ✓ | ✓ | ✓ | ✓ |
| Scioto County/Access Scioto County | | | | ✓ | ✓ | ✓ |
| Seneca County Agency Transportation | | | ✓ | ✓ | ✓ | ✓ |

| Transit Agency | Dedicated Sales Tax | Other Local Tax | General Fund Revenues | Contract Revenues | Passenger Fares | Misc. |
|---|---|---|---|---|---|---|
| Shelby Public Transit | | | ✓ | ✓ | ✓ | ✓ |
| South East Area Transit (SEAT) | | | ✓ | ✓ | ✓ | ✓ |
| Warren County Transit Service | | | ✓ | ✓ | ✓ | |
| Wilmington Transit System | | | ✓ | ✓ | ✓ | ✓ |

Source: ODOT 2012 Status of Transit Database