

FUNDING ISSUES

Possible Regional Approaches

CRTC August 23, 2017



TRANSPORTATION FUNDING AND THE U.S. HIGHWAY TRUST FUND



U.S. Highway Trust Fund (HTF)

- The U.S. Highway Trust Fund was created by Congress in 1956
- Purposely separated *motor fuel tax* revenue from the U.S. General Fund
- Purposely dedicated those revenues for transportation – true user fee
- In 1983 one-cent was diverted to fund Transit
- Predictable and reliable revenue resource



The Trust Fund's Importance

- Enables the use of multi-year “contract authority,” allows meaningful long-range planning and to contract for multi-year projects
- Viable means for supporting state-level and transit agency debt obligations used to finance long-term assets
- HTF was able to meet the financial obligations until *2008*



What Happened?

Revenue from motor fuel and excise taxes are not keeping up for a number of reasons:

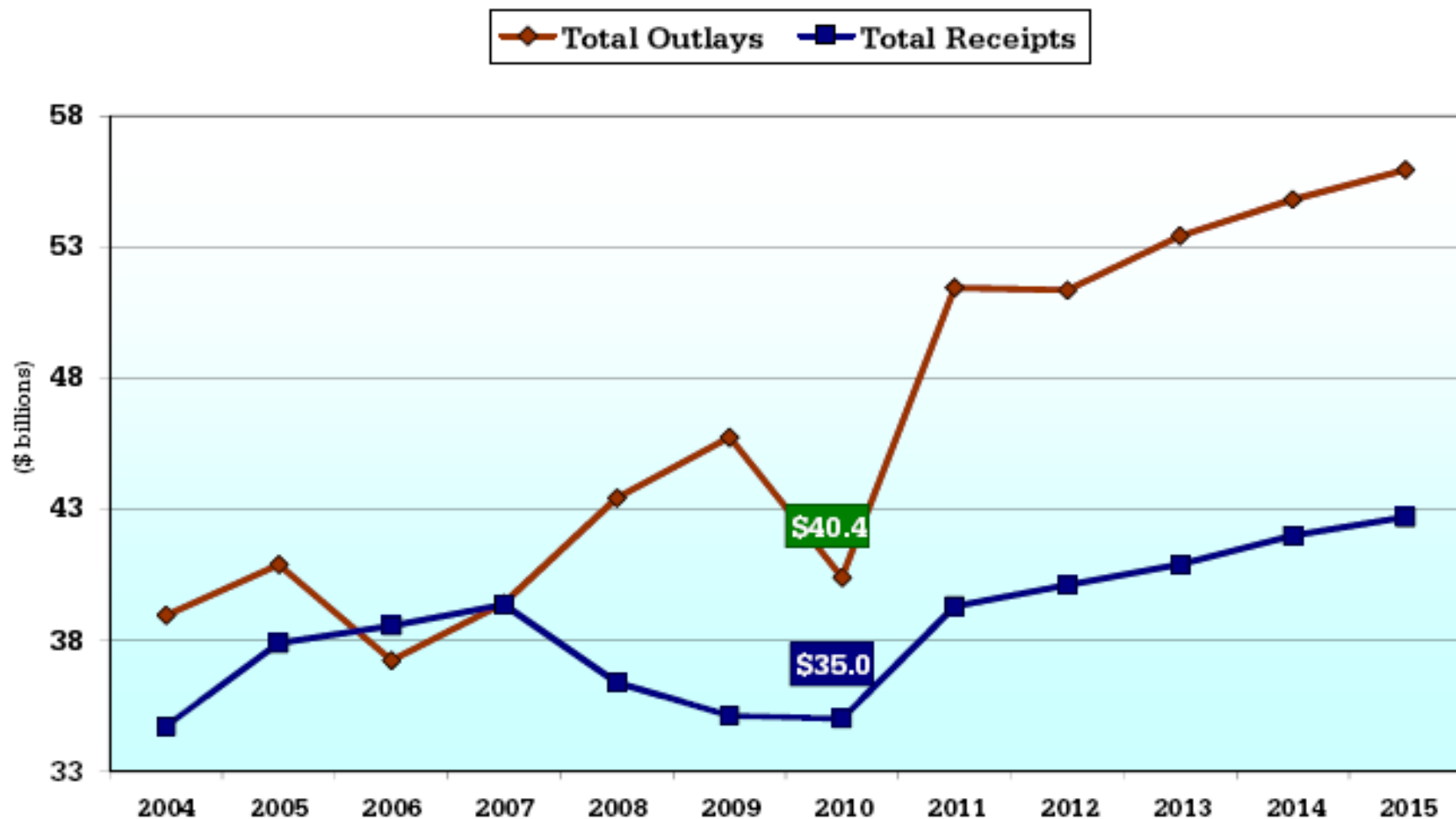
1. Decline in car and truck travel
2. More fuel efficient and alternative fueled cars including hybrids and electric vehicles
3. Exemption of ethanol from motor fuel tax
4. The motor vehicle fuel tax hasn't been raised since 1993 – not even adjusted for inflation

The Reality

- Real highway spending per mile traveled has **fallen by nearly 50 percent** since the federal Highway Trust Fund was established in the late 1950s
- Total combined highway and transit spending as a share of gross domestic product (GDP) has fallen by about **25 percent** in the same period to **1.5 percent** of GDP today
- Because it is not adjusted for inflation, the federal gas tax has experienced a **cumulative loss in purchasing power of 33 percent** since 1993—the last time the federal gas tax was increased

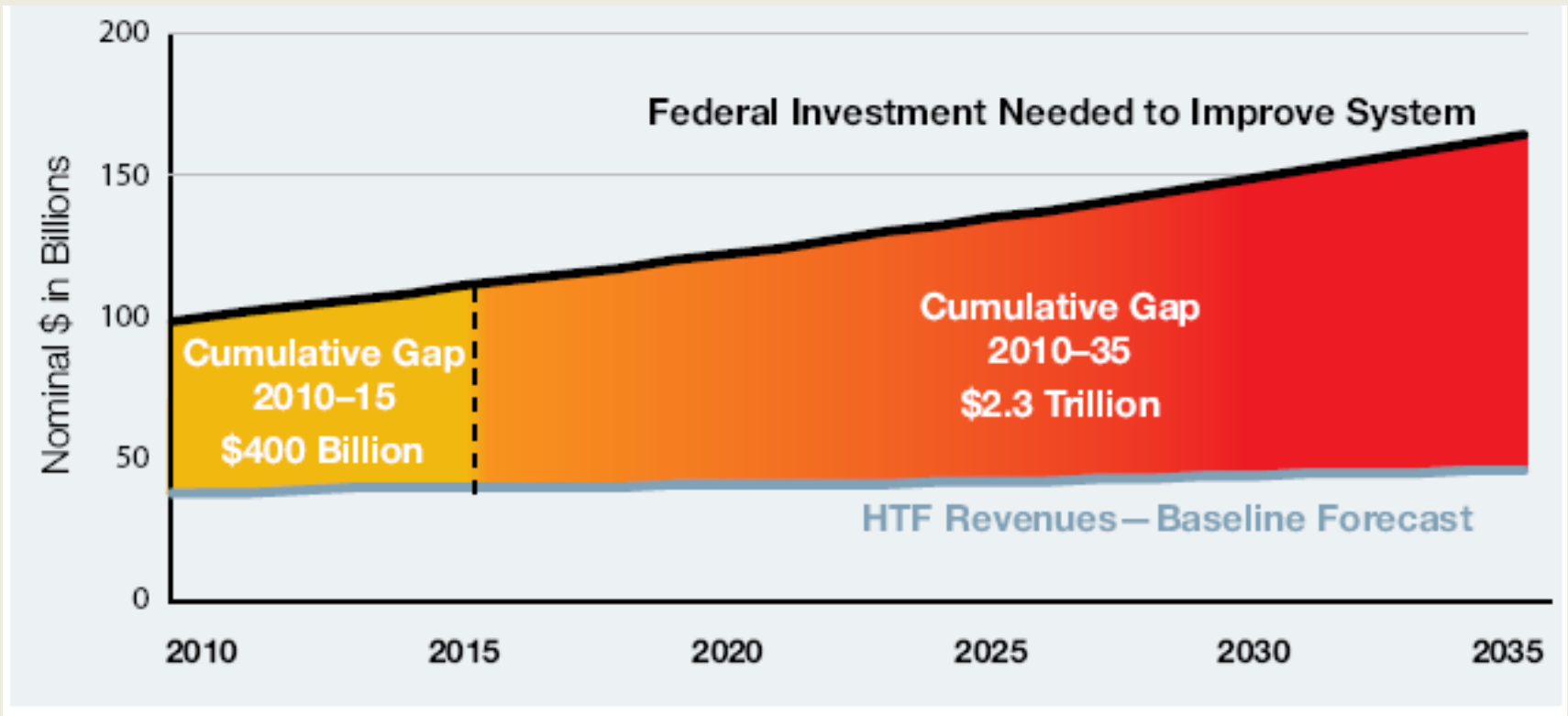


Highway Trust Fund: Receipts and Outlays Discrepancy



Note: Excludes \$8.017 billion transfer from General Fund to Highway Account of HTF in September 2008; \$7 billion transfer from General Fund to Highway Account of HTF in August 2009; \$19.5 billion transfer from General Fund to Highway and Mass Transit Accounts of HTF in March 2010.

A Large and Widening Gap Between Federal Revenues and Investment Needs, 2015 – 2035



State Funds – Serious Challenge

- Only 22 percent of the \$3.8 billion collected from highway taxes and fees each year goes to capital road projects, and the rest is diverted to cover state budget costs
- Using the money from the state's Dedicated Highway and Bridge Trust Fund leaves critical highway and bridge projects unfunded, per Comptroller Thomas DiNapoli
- In 2012, DiNapoli estimated that New York faces a shortfall of up to \$89 billion in funding for water, sewer and transportation infrastructure over the next two decades.
- "Taxpayers have paid billions in taxes and fees into a fund that was created to keep our roads and bridges in good repair," DiNapoli said. "Now, more than three-quarters of this money is siphoned off to pay for borrowing and operating costs of state agencies, leaving fewer dollars for improving our infrastructure."
- New York collects a gas tax, petroleum business tax, vehicle licensing fees and rental car tax that are funneled into the fund. But by 2002, debt payments had surpassed capital projects, and just 22.2 percent of \$3.8 billion disbursements in the last fiscal year went to construction projects.
- Most of the money, \$1.6 billion, covered the cost of snow and ice removal by the state Department of Transportation and day-to-day staff expenses at the Department of Motor Vehicles, DiNapoli said. The rest paid for debt.
- "More than three-quarters of this money is siphoned off to pay for borrowing and operating costs of state agencies, leaving fewer dollars for improving our infrastructure."

From the Fund's inception through SFY 2008-09, the Fund has collected more than \$33.2 billion from all revenue sources, including \$20.5 billion in taxes and fees, more than \$10.2 billion in bond proceeds, \$713 million in miscellaneous receipts and \$1.8 billion in transfers from other funding sources.

REVENUE SUMMARY
SFY 1993-94 through SFY 2008-09
(in millions)

	Total	Share of Total
Taxes and Fees	\$ 20,534	61.8%
Bond Proceeds	\$ 10,228	30.8%
Miscellaneous	\$ 713	2.1%
Transfers	\$ 1,769	5.3%
Total	\$ 33,244	100.0%

Source: Office of the State Comptroller

However, of all this revenue, just over one-third has been spent for capital construction through SFY 2008-09. State Operations expenses account for 37.7 percent of the Fund's expenditures, and debt service accounts for 27.4 percent.

DISBURSEMENT SUMMARY

SFY 1993-94 through SFY 2008-09

(in millions)

	Total	Share of Total	Growth
Capital Projects	\$ 11,635	34.9%	17.5%
State Operations	\$ 12,597	37.7%	191.7%
Debt Service	\$ 9,141	27.4%	577.1%
Total	\$ 33,372	100.0%	136.8%

Growth percentages start from SFY 1994-95, the first year of debt service costs.

Source: Office of the State Comptroller

Impact on our Plans

- Current project funding approach does not support needs here or nationally
- Sustainable finance strategies essential to success
- Metropolitan Transportation Plan quantifying resources needed to maintain existing infrastructure
- Implementation of transformative initiatives needed to create and accommodate future growth



Approaching the Issue

Revenue and Finance



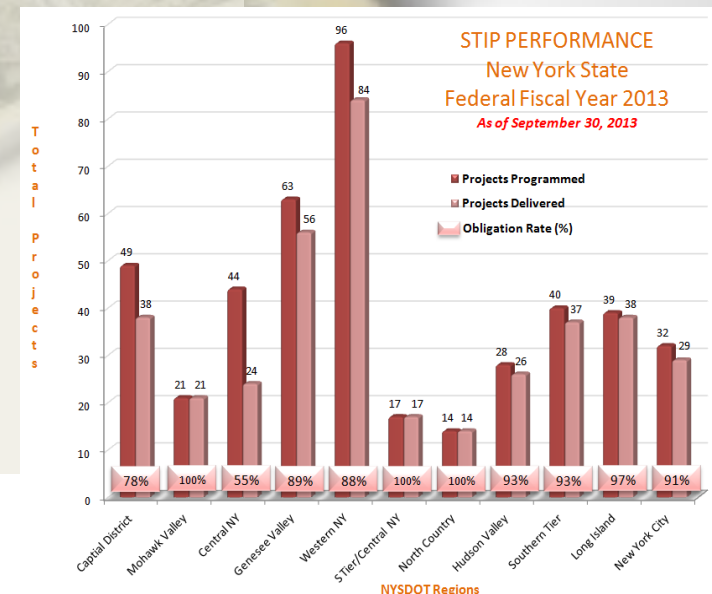
Maximizing Efficiency

Preserving Existing Infrastructure

- cost savings versus rebuild
- bridge management program (1 decade)
- revised approach to overall asset management

Expedite Project Delivery

- cost savings in contracts and inflation
- “chokepoints” initiative identified opportunities
- project delivery in Buffalo Niagara exemplary in New York State



Linkage to Existing Sources

- Transportation Program more than FHWA/FTA funding
- Numerous coordinated plans emerging to prioritize funds
- Importance of transportation in economic and community development
- REDC, NYSERDA, HUD, etc recent examples

Other Sources

- Other regions examining and implementing initiatives to expand funds for projects
- Issue needs work



Finance Actions

- Support continuation of HTF and federal program
- Broaden the focus of TIP project funding, detail current available sources, plus potential non-traditional opportunities linked to overall programs, (REDC, NYSERDA, etc)
- Prepare options in MTP 2050 and TOD Study for localized alternate funding including revenue sources and implementation mechanisms





Maximizing Efficiency

- Invest per the Framework, value and tax yield
- “Rebuild Infrastructure and Grow in Those Areas”
- Longer term cost implications of spending



Other Sources

- Other regions examining and implementing initiatives to expand funds for projects
- Some examples follow, possible revenue generation discussed

Surface Transportation Funding Options Matrix

(all revenue estimates in \$ millions)

Funding Mechanisms	Mechanism Yield (2011)	Illustrative Rate	Revenues 2011	Average Revenues 2011-2016	Total Revenues 2011-2016
Annual Drivers License Surcharge	\$1.00 Surcharge = \$ 222	\$5.00	\$ 1,110	\$ 1,165	\$ 6,993
Annual Highway Miles Traveled Fee (All Light Duty Vehicles)*	1¢/VMT = \$ 6,538	2.0¢	\$ 13,075	\$ 13,474	\$ 80,843
Annual Highway Miles Traveled Fee (All Trucks)*	1¢/VMT = \$ 977	3.0¢	\$ 2,931	\$ 3,020	\$ 18,120
Annual Registration Fee (Light Duty Vehicles)	\$1.00 Fee = \$ 281	\$10.00	\$ 2,613	\$ 2,741	\$ 16,448
Annual Registration Fee (Trucks)	\$1.00 Fee = \$ 4.4	\$15.00	\$ 66	\$ 66	\$ 399
Container Tax	\$1 per TEU = \$ 806	\$15.00	\$ 9,076	\$ 10,658	\$ 63,946
Dedicated Income Tax-Personal	1% of current taxes = \$ 1,130	1.0%	\$ 11,301	\$ 11,881	\$ 71,285
Dedicated Income Tax-Business	1% of current taxes = \$ 383	1.0%	\$ 3,832	\$ 4,029	\$ 24,172
Diesel Tax Increase	1¢/gal = \$ 386	15.0¢	\$ 5,794	\$ 6,052	\$ 36,309
Gas Tax Increase	1¢/gal = \$ 1,379	10.0¢	\$ 13,795	\$ 14,030	\$ 84,183
Harbor Maintenance Tax	0.1% Tax = \$ 1,236	0.5%	\$ 6,181	\$ 6,581	\$ 39,485
HVUT Increase	10% Increase = \$ 97	15.0%	\$ 146	\$ 169	\$ 1,017
Imported Oil Tax	\$1.00/Bbls = \$ 4,217	\$1.00	\$ 4,217	\$ 4,356	\$ 26,138
Sales Tax on Auto-related Parts & Services	1.0% of Sales = \$ 2,567	1.0%	\$ 2,567	\$ 2,823	\$ 16,938
Sales Tax on Gas	1.0% of Sales = \$ 2,987	8.4%	\$ 25,091	\$ 30,945	\$ 185,671
Sales Tax on Diesel	1.0% of Sales = \$ 868	10.6%	\$ 9,198	\$ 11,484	\$ 68,903
Sales Tax on New Light Duty Vehicles	1.0% of Sales = \$ 2,337	1.0%	\$ 2,337	\$ 2,571	\$ 15,427
Sales Tax on New and Used Light Duty Vehicles	1.0% of Sales = \$ 3,515	1.0%	\$ 3,515	\$ 3,837	\$ 23,021
Share of US Customs Revenues	1% of Receipts = \$ 333	1.0%	\$ 333	\$ 381	\$ 2,288
Tire Tax on Light Duty Vehicles	\$1.00 Fee = \$ 1,960	\$3.00	\$ 5,880	\$ 6,168	\$ 37,009
Ton Freight Charge—All Modes	1¢/ton = \$ 164	25.0¢	\$ 4,111	\$ 4,432	\$ 26,592
Ton Freight Charge—Truck Only	1¢/ton = \$ 113	25.0¢	\$ 2,835	\$ 3,057	\$ 18,340
Ton-Mile Freight Charge—All Modes	1¢/ton-mile = \$ 43,497	0.5¢	\$ 21,748	\$ 23,446	\$ 140,678
Ton-Mile Freight Charge—Truck Only	1¢/ton-mile = \$ 12,731	0.5¢	\$ 6,365	\$ 6,862	\$ 41,174
Truck/Trailer Sales Tax Increase	1% of Sales = \$ 219	5.0%	\$ 1,095	\$ 1,529	\$ 9,174
Truck Tire Tax Increase	10% Increase = \$ 33	10.0%	\$ 33	\$ 48	\$ 286
US Freight Bill—All Modes	1% of Sales = \$ 7,612	1.0%	\$ 7,612	\$ 8,206	\$ 49,236
US Freight Bill—Truck Only	1% of Sales = \$ 6,808	1.0%	\$ 6,808	\$ 7,124	\$ 42,745
Total Revenues			\$ 173,465	\$ 191,137	\$1,146,819

*VMT fee estimates refer to miles traveled on Interstate System.

Revenue Option Evaluation Summary

Strong	Moderate	Weak	Not Applicable/ Seriously Flawed**
Federal Options			
<ul style="list-style-type: none"> • Vehicle miles traveled fee • Automobile tire tax • Motor fuel tax • Carbon tax/cap and trade • Customs duties • Truck/trailer sales tax • Vehicle registration fee • Heavy Vehicle Use Tax • Container fee • Tariff on imported oil • Sales tax on motor fuels • Truck tire tax 	<ul style="list-style-type: none"> • Freight waybill tax • Vehicle sales tax • Harbor maintenance tax • General fund transfer 	<ul style="list-style-type: none"> • Freight ton-mile tax • Driver's license surcharge • Bicycle tire tax • Dedicated income tax • Auto-related sales tax • Freight ton-based tax • General sales tax 	<ul style="list-style-type: none"> • Vehicle inspection and traffic citation surcharge • Vehicle personal property tax • Windfall profits tax • Petroleum franchise tax • Minerals severance tax • Federal tax on local transit fares • Federal tax on local parking fees
State and Local Options Benefiting from Federal Action			
<ul style="list-style-type: none"> • Facility level tolling and pricing 	<ul style="list-style-type: none"> • Proceeds of asset sales, leases, and concessions 	<ul style="list-style-type: none"> • Cordon area pricing • Passenger facility charges 	<ul style="list-style-type: none"> • Development and impact fees • Tourism-related taxes • Tobacco, alcohol, and gambling taxes

Revenue Mechanisms Seen in Some Metros

User Fees

Fuels tax per gallon
Sales tax on purchase price of fuel
Aviation fuels tax

Tolls, including flat and variable tolls

Vehicle Sales Tax
Vehicle License/Registration Fees
Emissions Fees
Annual VMT Fees

Non-User Fees

Sales tax
Property tax
Development tax, including commercial and residential
Per capita tax

Possible New Source Considerations

Likely Yields from Revenue Sources – Region this Size

Revenue Source	Rate for \$5M	Rate for \$10M	Rate for \$20M	Unit
Fuel Tax	\$0.011	\$0.022	\$0.043	Per gallon
Fuel Sales Tax	0.47%	0.94%	1.88%	Percentage of sale
Aviation Fuel Tax	\$0.11	\$0.23	\$0.46	Per gallon
Tolls	\$0.06	\$0.12	\$0.25	Per person, per day
Vehicle Sales Tax	0.34%	0.68%	1.35%	Annual vehicle sales
Vehicle Registration Fee	\$10.56	\$21.12	\$42.24	Per vehicle, annually
Vehicle Emission Fee	\$0.50	\$1.00	\$2.00	Per ton of emissions
VMT Fee	\$0.05	\$0.10	\$0.21	Per 100 miles travelled
Sales Tax	0.05%	0.10%	0.19%	Percentage of sale
Property Tax	\$0.13	\$0.27	\$0.53	Per \$1000 of assessed value
Development Tax	\$706	\$1,412	\$2,824	Per new house built

Other Possibilities:

Parking Fees/Fines

Income tax

Alternate Fuels tax

Advertising/Naming

TOD/Improvement Districts

One Example – Major Bridge Program in Colorado “FASTER”

- Increases revenues from various sources for transportation improvements at the state and local level.
- A portion of the funding designated as the “bridge safety surcharge” is dedicated specifically for most deficient bridges— those bridges identified as structurally deficient, or functionally obsolete, and rated “poor”
- 10-year program plan is based upon a cash flow model that recognized incoming revenues (defined as FASTER pay-go funding, bond proceeds, subsidy, and Federal BR debt service pledge)
- Maintenance and planned preventative maintenance costs on a quarterly basis summarized by fiscal year from 2013 through 2023



Other Sources

- Other regions examining and implementing initiatives to expand funds for projects
- Some examples follow, possible revenue generation discussed



Keep San Diego Moving
TransNet

TransNet Program San Diego region

- for more than 20 years has funded highway expansions, Trolley extensions, pedestrian-friendly projects, bikepaths, local road improvements, and transit programs throughout the entire region.

Fund Source

- In 1987, San Diego County voters recognized the challenge to keep San Diego residents, visitors, and commerce on the move, and approved *TransNet*—a regional half-cent sales tax collected to finance transportation improvements

Results

- Initial 20-year *TransNet program* generated approximately \$3.3 billion between 1988 and 2008.
- SANDAG, which administers *TransNet* funds, distributed the money in equal thirds among transit, highway, and local road projects.
- In addition, \$1 million was earmarked annually for bicycle paths and facilities.
- The program also funded seven innovative Walkable Community Demonstration Projects
- Supports a robust public transportation system, including new Bus Rapid Transit services and Carpool/Express Lanes along many of the major transportation corridors

Other Features

- *TransNet* extension includes some added features over the initial program.
- Supports an innovative \$850 million environmental mitigation program to offset the impacts of future transportation improvements while at the same time reducing overall costs and accelerating project delivery.
- Extension also provides for a \$280 million smart growth incentive fund.
- Approximately \$5 million a year of the available funds will go to bicycle paths and facilities, pedestrian improvements, and neighborhood safety projects.
- Extension also created the Independent Taxpayer Oversight Committee to monitor the expenditure of *TransNet funds*

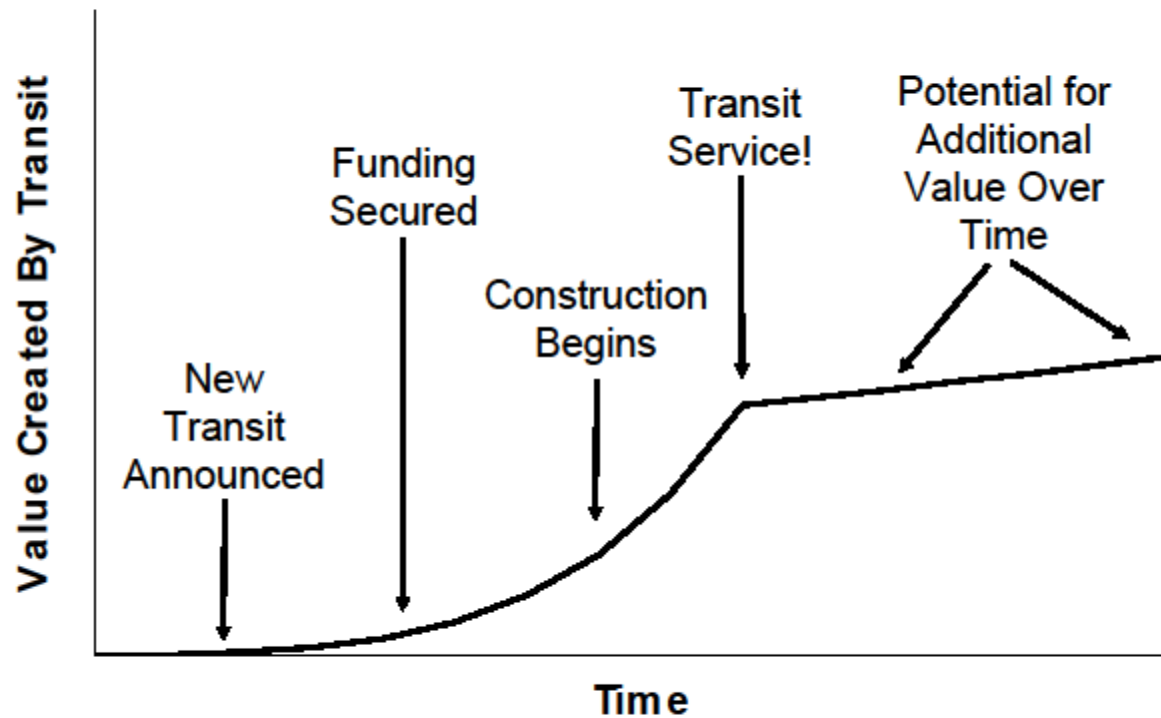
The Holy Grail

Value Capture:

Capturing growth in *property values*
generated by transit
to pay for
transit or related improvements



Transit and Property Values: in Theory



But, the Evidence is Uneven

WHY?

Many factors influence the impact of transit on property values:

- Transit Type
- Transit Connectivity
- Frequency of Transit Service
- Real Estate Market Conditions
- Land Uses in the Station Area
- Ease of Access to the Station (Pedestrian Connectivity, Parking)
- Disincentives to Driving (Congestion, High Gas Prices)

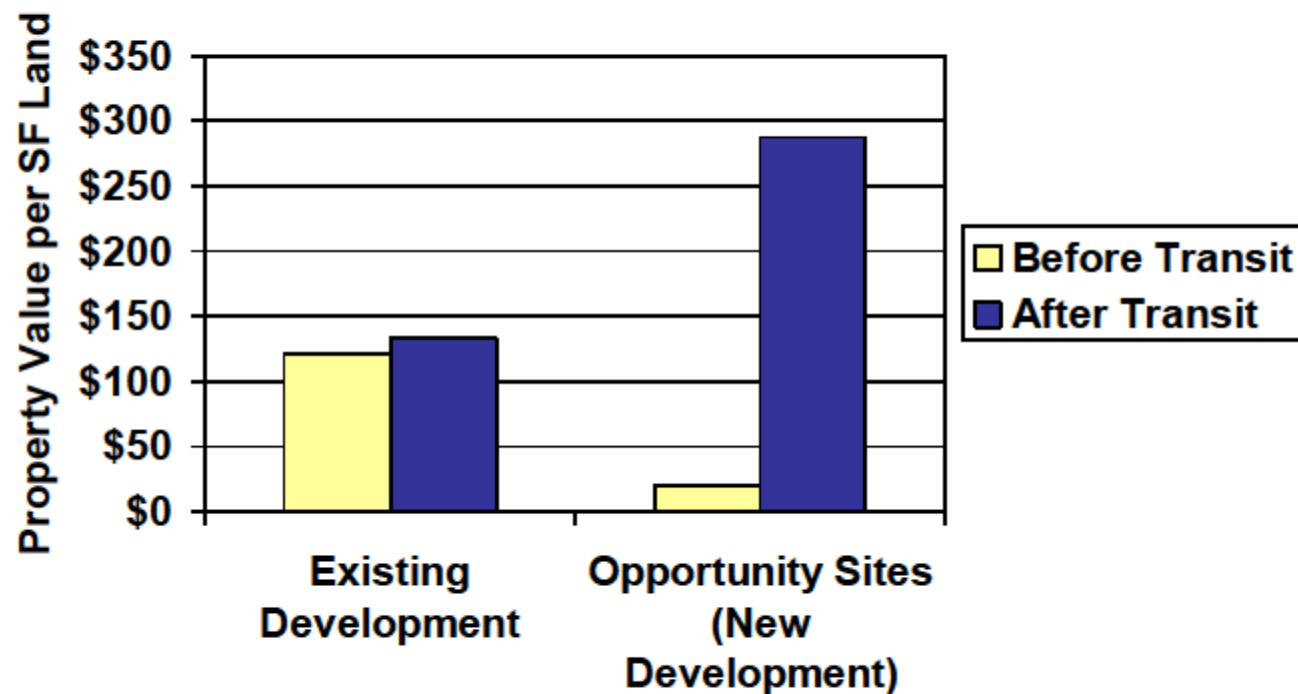
Most of the Opportunities for Capturing Value are Related to New Development

New development can be designed to take advantage of the benefits of transit

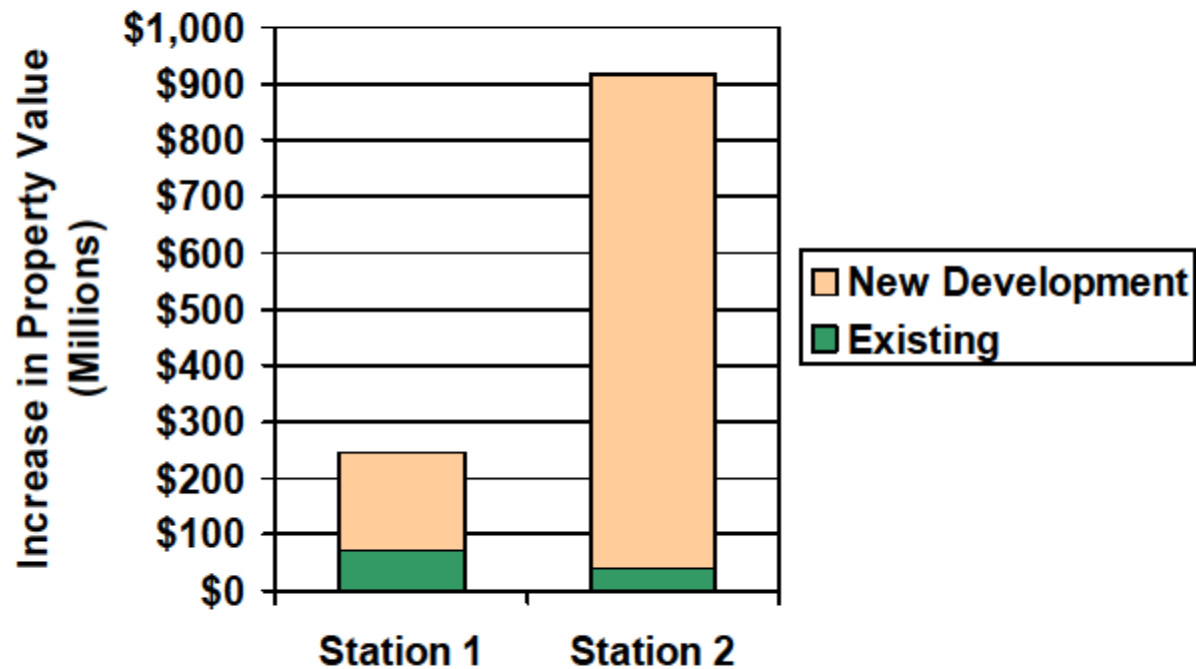
It can capitalize on:

- Demand for TOD
- Transit-oriented land uses
- Public incentives
- Reduced parking ratios
- Previously unavailable land

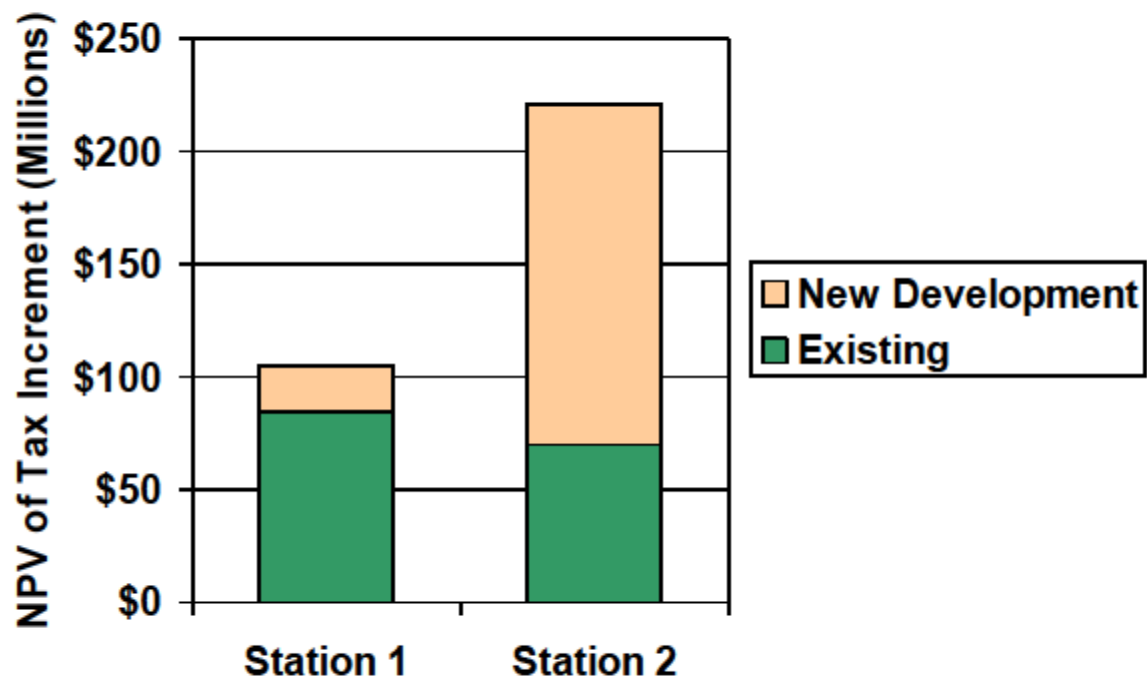
Change in Property Values Before and After Transit



Property Value Increase (Value Created)



Tax Increment Generated (Value Captured)



Implications of Relying on New Development for Value Capture

- It requires vacant or underutilized land!
- Potential for value capture strategies is impacted by same things as the real estate market, e.g., development costs, demographics, employment growth
- TOD is not always the highest and best use
- Transit may compete with other community benefits for this value

Three Main Types of Strategies:

- Assessment Districts
- Joint Development
- Tax Increment Districts

Assessment Districts

Assessment of property owners to pay for transit improvements

- Makes sense in theory, but not used widely for transit
- Challenge is making sure assessment is aligned with transit benefits
- Best for capturing increase in existing property values
- Easier to implement with streetcars!

Joint Development

Coordination between the public and private sectors to develop sites near transit (usually publicly-owned land)

- Not typically a major source of income for transit agencies
- Sites are often difficult to develop; projects often require subsidies
- Doesn't take advantage of value created within a district
- Real estate development is risky and timing is key

Tax Increment Financing

A tool to capture future property tax gains to pay for public infrastructure

- A powerful tool, but limitations on where and how it can be used
- Shifts \$\$ from cities, schools, other public services
- The current TIF “backlash”

Need for a Framework

- The best value capture strategies are very closely aligned with property owner benefits
- Appropriate strategies will vary according to:
 - Transit type
 - Geography / jurisdictions
 - Development potential
 - Other?

Value Capture - National Experiences

- *Atlanta BeltLine* – The project is being supported by net proceeds from TIF bonds sold in 2008 and 2009. The Atlanta BeltLine, Inc. (ABI) plans to use assessment district bonds to support the operations and maintenance (O&M) costs for the streetcar.
- *Washington Metropolitan Area Transit Authority (WMATA)* secured over \$300 million in assessment revenues from the property owners along the extension of the Silver Line from Alexandria, VA to and beyond Dulles International Airport.
- *The California High-Speed Rail Authority* has conducted a series of studies along the Initial Operating Segment (IOS) to determine the new property tax and assessment district revenues generated at each station.
- *North Carolina Department of Transportation (NCDOT)* funded the Charlotte Red Line Commuter study that structure both tax increment and assessment district funding from nine different taxing entities to support the project.
- *City of Alexandria, VA*. The Potomac Yard project in Alexandria utilized direct payments from the developer, assessment payments, and the allocation of tax increment revenues to support the new station.

New York Challenges

- New York Legislature in 2012 amended the 1984 TIF statutes with the intention of making the program more useable, the new act has significant constitutional issues and virtually no TIF bonds have been issued since 2012.
- National underwriters that specialize in value capture financing, such as Stifel Nicolaus, have repeatedly evaluated both TIF and assessment district programs to support client jurisdictions in New York State. They have not been able to define a way to apply the TIF or assessment statutes in a manner that would satisfy the basic underwriting requirements to monetize the cash flows.
- Additional challenges with TIF involve school districts, which often are a separate assessing body (outside of the City of Buffalo), which results in the property taxes generated by a municipality being shared.
- Because of this, the property taxes generated by the municipality are insufficient to leverage a viable bond financing. Further, TIF bonds require a rigid statutory process with specifics on how increments would be calculated and captured, which requires an understanding of the equalization rate. This is often difficult for such long term projects across multiple jurisdictions.

Available Approaches

- *PILOTS*. The predominant program used in New York is Payments in Lieu of Taxes (PILOTs). The program acts in many ways like a TIF program, where the project specific revenues (PILOT payments) are made directly to the agency funding the infrastructure associated with the project. In New York, one of the most prominent projects utilizing PIF is the Hudson Yards project in Manhattan. A new district, operated by the Hudson Yards Infrastructure Corporation organized under the City of New York, was established around Hudson Yards from which PILOTs from new or newly renovated buildings are set aside for infrastructure improvements within the district. This strategy is known as PILOT Increment Financing, or PIF, and has been used on a case-by-case basis in Buffalo to fund mainly streetscape improvements near redevelopment projects.
- *Air Rights*. Where intense development is occurring, the purchase or lease of air rights can be a significant source of revenue to the public or private entity selling or leasing the air rights. NFTA has experience with air rights at the Allen/ Medical Campus Station with the University at Buffalo Medical School. Revenues generated from air rights could be used fund infrastructure improvements as the station and surrounding area.
- *Density Bonuses* are additional fees paid by developers to build at greater density than would otherwise be allowed under zoning. The additional revenue generated from the density bonus fees would go towards financing public infrastructure projects in the neighborhood. This mechanism was used at Hudson Yards in New York City to provide revenues for new boulevards and parks.

Applicability to Metro Rail Corridor

- There are few applicable programs in New York that are designed to support transit corridors, as can be the case with TIF and assessment districts. While PIFs have been used for districts, they have yet to be used for a corridor type project. Additionally, before bonds could be issued, the underwriters would need to be assured that there would be a sustainable and committed funding source. Any program, whether a PILOT program or the sale of air rights, would need to be negotiated on an individual basis with the private entity agreeing to the PILOT payments or buying the air rights.
- Continuing to explore the possibility of using PIF and/or sale of air rights as value capture financing mechanisms for the Metro Rail Corridor.

Issues in Buffalo Niagara

- Like much of our regional discussions, challenge of multiple jurisdictions is real
- No mechanism exists to generate and disburse revenues in an administrative manner
- Numerous other areas have solved with success

Possible Actions

- Determine interest in pursuing some option(s)
- Select possible small, single focus opportunity
- Detail potential revenue expansion possibilities, including but not limited to tax and tolling, private revenue sources, Public-Private-Partnerships (PPP), advertising, value capture, long term bonding, etc
- Describe needed organizational arrangements in terms of legal/institutional capacity to implement new revenue programs
- Analyze gaps between current structure and the described arrangements