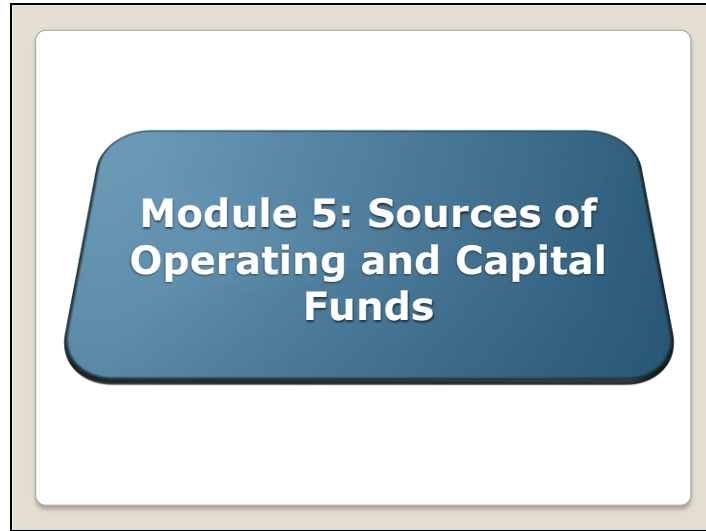


Module 5

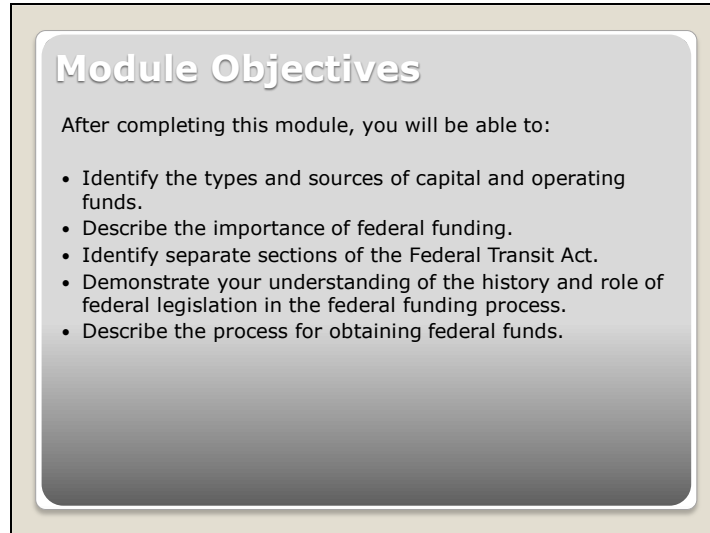
Sources of Operating and Capital Funds



Welcome to the Sources of Operating and Capital Funds module. This module addresses the different revenue sources by which transit authorities are funded and how funding is spent.

Module 5

Sources of Operating and Capital Funds

A rectangular box with a light beige border and a grey gradient background. The title 'Module Objectives' is at the top in a bold, white, sans-serif font. Below the title, the text 'After completing this module, you will be able to:' is in a smaller, white, sans-serif font. A bulleted list of five objectives follows, with each bullet point in a white, sans-serif font.

Module Objectives

After completing this module, you will be able to:

- Identify the types and sources of capital and operating funds.
- Describe the importance of federal funding.
- Identify separate sections of the Federal Transit Act.
- Demonstrate your understanding of the history and role of federal legislation in the federal funding process.
- Describe the process for obtaining federal funds.

This module provides you with a basic understanding of federal and non-federal funding sources. Note that we will not go into detail for local and state funding, as these vary by agency. After completing this module, you will be able to:

- Identify the types and sources of capital and operating funds,
- Describe the importance of federal funding,
- Identify separate sections of the Federal Transit Act,
- Demonstrate your understanding of the history and role of federal legislation in the federal funding process, and finally,
- Describe the process for obtaining federal funds.

TFLEEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds

Introduction

- Revenues and funding come from a combination of local, state, and federal sources.
- Most operating revenues come from farebox receipts, local taxes, and fees.
- Federal funds are used for capital projects
- State funds are used to match federal grant funds, and local funds are used to match federal and state grant funds.



The sources for virtually every transit authority's funding is a combination of local, state, and federal funds. Most of the revenues for operations come from local residents through the farebox, sales taxes, and other fees. Federal funds are used primarily for capital projects. State and local funds are used for operating and maintenance, as well as for capital projects. In addition, state funds are used to match federal funds; local funds to match both federal and state funds.

TFLEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds

Non-federal funds

The first topic we'll discuss in this module is non-federal funds. Transit authorities receive operating revenues from many sources, including fareboxes, locally enacted sales tax, local fees or tolls, property taxes, and others. Funding for capital includes local sources as well as debt and grants.

Non-federal funding sources:

- Fare box revenue: Collected by each transit operator
- Locally enacted sales tax: These can be permanent or temporary, set to expire at a certain date. Sales tax can be a volatile revenue source – negatively impacted during an economic downturn.
- Local fees or toll: Bridge or road tolls and surcharges collected; impact fees paid by developers for new roads, sewers, utilities, etc.
- Property taxes: Some portion of property tax may be designated specifically for the transit agency, subject to voter approval. While this revenue source has historically been less volatile than sales tax receipts, a downturn in the real estate market – often in conjunction with an economic downturn can cause a decline in these revenues.
- Transit agency issued bonds: These are generally repaid by sales tax revenue, gas tax revenue, or by other transportation revenues.
- Other agency-generated revenues: Advertising, interest income, etc. These vary widely from agency to agency.
- City/municipality/county general funds, and city/municipality/county capital bonds: These also vary from region to region

TFLEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds

State funding

State funding sources can include:

- State's General Fund
- State Capital Bonds
- State taxes dedicated for transit
- State gasoline tax

TFLEEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds

Capital Funding

Debt

Transit agencies may issue short- or long-term debt, such as commercial paper or bonds. The principal and interest on the debt is generally repaid by sales tax, gas tax, or other transportation revenues. Debt can also be issued by a municipality and / or a county.

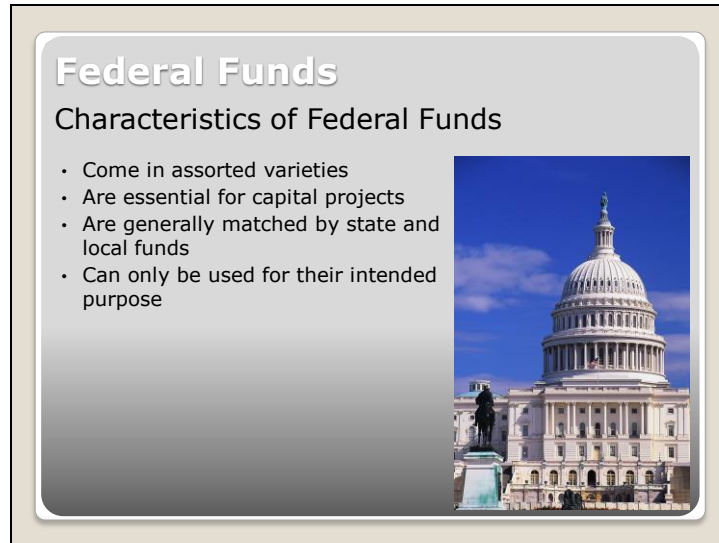
Grants

An agency may receive a grant of capital funds. These are monies dedicated to new systems or improving/ replacing elements of systems. Examples are widening roads, rail extensions, improving transit stations, new bicycle lanes. The primary source of capital funds are federal programs, discussed below, but may be from a state program or locally enacted taxes.

Module 5

Sources of Operating and Capital Funds

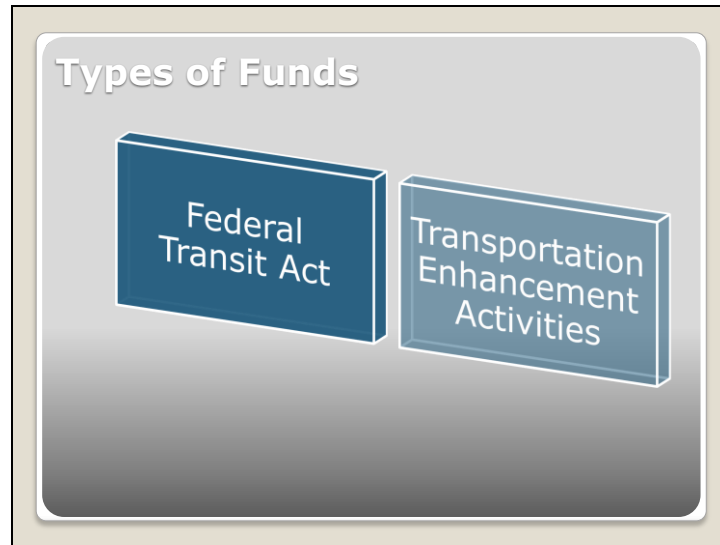
Federal funds



Federal funds are important to agencies for many reasons. Let's take a look at a couple of these reasons. First, federal funds come in assorted varieties that are common to all transit agencies. Federal funds are essential for capital projects, such as new rail construction, bus purchases, improvements to fixed facilities, support equipment, and much more. Federal funds are almost always matched by either local or state funds. Finally, federal funds can only be used for their intended purpose.

Module 5

Sources of Operating and Capital Funds



Now that you have seen the importance of federal funds, let's learn about two of the primary federal funding sources that are common to all agencies. These are the Federal Transit Act and the Transportation Enhancement Activities (TEA).

Federal Transit Act

The Federal Transit Act contains a number of different types of grants. This legislation has separate "Sections" described below. The requirements, funding allocation, regulations, and sections themselves periodically change from one authorization to another (see "history" below).

The Federal Transit Administration (FTA) develops the related regulations and oversees the administration of these funds. The Federal Transit Administration (FTA) provides financial and technical assistance to local public transit systems, including buses, subways, light rail, commuter rail, trolleys and ferries. FTA also oversees safety measures.

TFLEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds

Go to the FTA website <https://www.transit.dot.gov> to ensure you have current information.

Sections

Section 5307 - Urbanized Area Formula Program. This program provides funding for capital, planning and operating projects for urbanized areas with a (population of 50,000 or more). These funds are distributed to Urbanized Areas using a formula based on population and population density as well as service characteristics, including bus vehicle miles, bus passenger miles/operating cost ratio, fixed guideway route miles, fixed guideway vehicle miles, and fixed guideway passenger miles/operating cost ratio as reported in the National Transit Database (NTD).

Section 5309 - Capital Investment Program. There are three components to this program: Bus and Bus-Related Facilities; Fixed Guideway Modernization; and New Starts.

Bus and Bus Related Facilities funding can be used to buy, lease, replace or rehabilitate buses and related equipment such as fare boxes and radios, and to construct bus-related facilities such as bus maintenance and administrative facilities, transfer facilities, passenger amenities, etc. These funds are allocated on a discretionary basis.

Fixed Guideway Modernization funding is provided on a formula basis to transit systems who have had fixed guideway facilities in excess of one mile in operation for at least 7 years. Capital projects to modernize or improve fixed guideway systems are eligible for funding and may include purchase and rehabilitation of rolling stock, track, line equipment, and structures, signals and communications, power equipment and substations, passenger stations and

Module 5

Sources of Operating and Capital Funds

terminals, security equipment and systems, maintenance facilities and equipment, operational support equipment and system extensions.

New Starts funding is for construction of new fixed guideway systems and extensions. Eligible purposes are light rail, rapid rail (heavy rail), commuter rail, monorail, automated fixed guideway system (such as a “people mover”), or a busway/high occupancy vehicle (HOV) facility, or an extension of any of these. In addition, significant corridor-based bus capital projects which either use an exclusive lane or which involve a substantial investment in a defined corridor (such as bus rapid transit) may also be eligible. Projects become candidates for funding under this program by successfully completing the appropriate steps in the major capital investment planning and project development process. Project must be based on the results of an Alternatives Analysis, justified against a set of statutory criteria, and supported by an adequate degree of local financial commitment. Major new fixed guideway projects, or extension to existing systems financed with New Starts funds, typically receive these funds through a full funding grant agreement that defines the scope of the project and specifies the total multi-year Federal commitment to the project. The New Starts program undergoes numerous changes each year, so it is always best to check the FTA website.

These funds are allocated on a discretionary basis.

Small Starts funding is for projects requesting less than \$75 million in New Starts funds. These projects have a streamlined project development process, and receive these funds through a project construction grant agreement which is a simplified version of a full funding grant agreement.

Section 5310 - Elderly and Persons with Disabilities Program This program provides capital assistance for transportation for elderly persons and persons with disabilities. These projects frequently purchase paratransit vans and related communication

TFLEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds

equipment but may also include the acquisition of transportation services by a contract, lease, or other arrangement. These funds are apportioned to the States (who distribute them to local agencies) using a formula that includes census population data for persons aged 65 and over and for persons with disabilities. While the assistance is intended primarily for private non-profit organizations, public bodies that coordinate services for the elderly and persons with disabilities may receive these funds.

Section 5311 - Non-urbanized Area Formula Program and Rural Transportation Assistance Program (RTAP) - Funding under these programs is apportioned to the States for distribution to transit agencies in non-urbanized areas (rural) for operating and capital assistance. RTAP also provides funding for training, technical assistance, research, and support services.

Section 5316 - Job Access/Reverse Commute Program (JARC) - This program provides funding to increase transit services to employment opportunities.

Section 5317 – New Freedom Program provides formula funding to States and urbanized areas to provide new public transportation services and public transportation alternatives beyond those required by the Americans with Disabilities Act. Sixty percent of the funds are apportioned to urbanized areas over 200,000 based on the number of persons with disabilities. Twenty percent of the funds are apportioned to the States with populations between 50,000 and 200,000 and the remaining 20 percent is apportioned to the States for use in areas with populations below 50,000. Each designated recipient in an urbanized area and each State must select projects competitively. Projects must be derived from a locally developed, coordinated public transit-human services transportation plan. Matching funds may be derived from other non-DOT programs (including Temporary Assistance for Needy Families—TANF) or the Federal Lands Highway program.

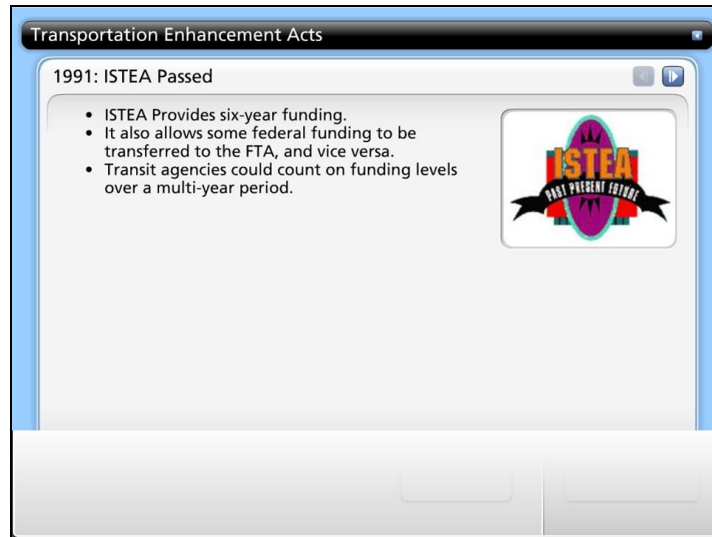
Check the FTA website for information on other FTA Major Assistance Programs.

TFLEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds

Transportation Enhancement Acts



History

In 1991, Congress passed the Intermodal Surface Transportation Efficiency Act, nicknamed ISTEA. ISTEA was a major benefit to public transportation because, for the first time, transit agencies could count on funding levels over a multi-year period. The legislation provided funding for a six year period, and emphasized preserving existing systems, balancing modes, and allowing some categories of federal highway funding to be transferred (flexed) to the Federal Transit Administration for transit purposes. Likewise, federal transit funding could be flexed to the Federal Highway Administration. It fostered better planning and gave financial markets more certainty that agencies would be receiving funds to pay for debt service on capital projects.

TFLEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds

TEA-21, or the Transportation Equity Act for the 21st Century, was passed in 1997 and extended programs established under ISTEA. TEA-21 expired in 2003 and the reauthorization, dubbed SAFETEA-LU (*Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users*) was not passed until June 2005. There are two categories that are frequently flexed to FTA for transit projects, and they are the Surface Transportation Program, or STP, and Congestion Mitigation and Air Quality, or CMAQ, program.

Surface Transportation Program (STP) - General rehabilitation or operational improvements. Unlike other categories, STP money is flexible - applicable to facilities for transit, pedestrians, roads, highways, and bicycles. 10% of STP money must go to Transit Enhancement Activities (TEA) projects that enhance compatibility of transportation facilities with their surroundings. TEA projects might be public art, bus shelters, restoration of historic facilities, or improved bicycle and pedestrian access to transportation facilities.

Congestion Mitigation and Air Quality Improvement Program (CMAQ) - CMAQ funds are used to contribute to the region's ability to attain federal Clean Air Act standards. [Funds are made available to regions by population in areas that have not attained Clean Air standards, adjusted by a pollution severity factor.] To be eligible for CMAQ funds, transit projects must be expected to increase ridership. Examples are new transit facilities if associated with new or enhanced mass transit service; new transit vehicles to expand a fleet and obtaining replacement vehicles are also examples.

SAFETEA-LU expired in 2009 and was extended several times with short term authorizations. In 2012, a new federal bill, Moving Ahead for Progress in the 21st Century (MAP-21) replaced SAFETEA-LU and rolled the Safe Routes to School program into a new grant program called Transportation Alternatives Program.

TFLEEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds

In July 2012, President Obama signed Moving Ahead for Progress in the 21st Century (MAP-21) Act, which reauthorized surface transportation programs from FY 2012 through FY 2014. In December 2015, President Obama signed the Fixing America's Surface Transportation (FAST) Act, reauthorizing surface transportation programs from FY 2015 through FY 2020.

In FY2020 and FY2021, transit received additional grant funding from:

- The Coronavirus Aid, Relief, and Economic Security (CARES) Act

<https://www.transit.dot.gov/cares-act>

- The Coronavirus Response and Relief Supplemental Appropriations Act of 2021 (CRRSAA)

<https://www.transit.dot.gov/funding/grants/fiscal-year-2021-crrsaa-act-supplemental-public-transportation-apportionments-and>

- The American Rescue Plan Act of 2021 (ARP) to help compensate for reduced revenues from sales tax and fares and cover additional coronavirus-related costs.

<https://www.transit.dot.gov/funding/american-rescue-plan-act-2021>

TFLEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds

Federal Funding Process Cookbook

Now that we've learned about the types of federal funds, how do transit agencies receive these federal funds?

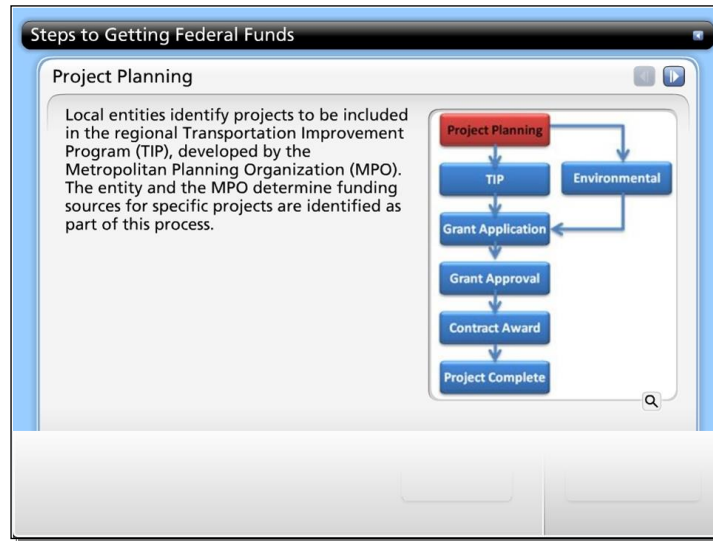
The flow steps required to get Federal funds are:

1. Transportation Improvement Program projects are reviewed first by local bodies such as a municipal planning commission or transit agency.
2. Generally, Federal funds can only be applied for with the oversight of a regional authorizing body. In urbanized areas with a population of over 50,000, the authorizing body is known as a Metropolitan Planning Organization, MPO for short.
3. The MPO or equivalent body evaluates candidate projects and identifies appropriate sources.

TFLEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds



The general process for obtaining Federal funds is as follows:

1. Local entities identify projects to be included in the regional Transportation Improvement Program (TIP), developed by the Metropolitan Planning Organization (MPO). Funding sources for specific projects are identified as part of this process. Working with the MPO and the other local/regional entities is critical for projects that will use flexible funding such as STP or CMAQ.
2. The MPO adopts the regional TIP and submits it to the State for inclusion in the State Transportation Improvement Program (STIP). All projects to be funded with federal funds must be included on an approved STIP.
3. Funding must be available before the grant application can be prepared. The funding must be appropriated legislatively. If flex funds are to be used, the funds must be flexed before the application can be submitted. Upon request from the transit agency, the State Department of Transportation is responsible for requesting that highway funds be flexed to FTA for use in a transit project.

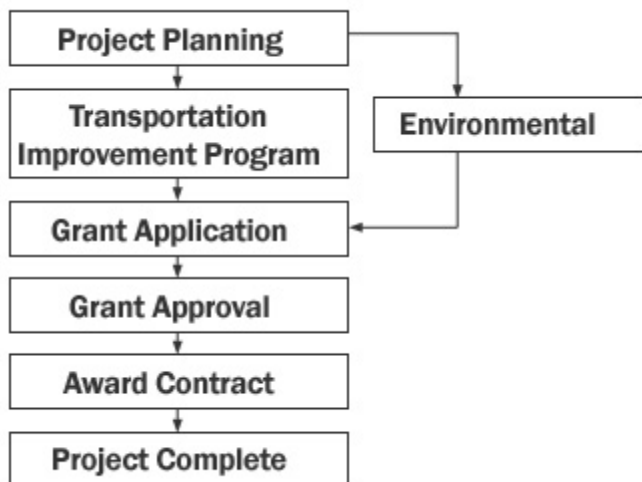
TFLEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds

Once appropriated most funds must be obligated - put under contract with FTA - within a certain time period, usually the year of appropriation plus 2 or 3 years depending on the type of funding.

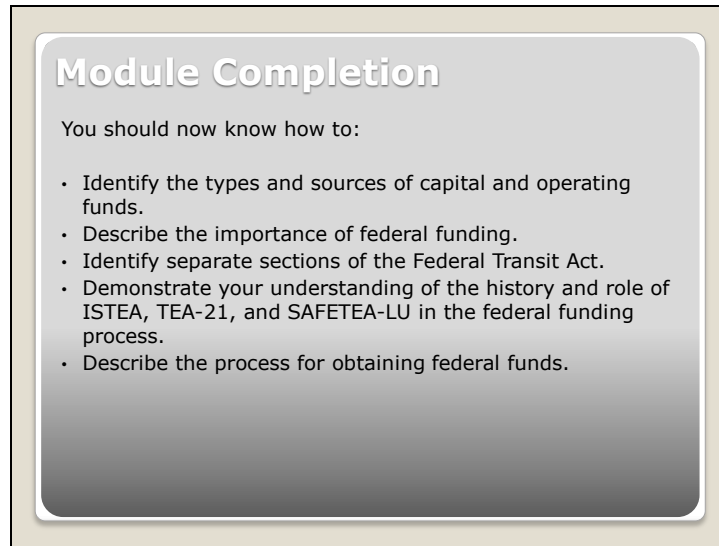
4. The grant application is prepared and submitted electronically to FTA. [Note: Construction and rehabilitation projects which may result in an environmental impact, must be cleared environmentally before funding for construction phases can be requested and awarded.]
5. Once all grant requirements have been met, the Grant is approved by FTA and funding becomes available.
6. After the funding becomes available, contracts can be awarded. It should be noted that certain funds carry pre-award authority, so that contracts can be awarded before funding is awarded.



Remember, funding must be made available or appropriated - by legislative action-- before grant application can proceed.

Module 5

Sources of Operating and Capital Funds



Congratulations! You have completed the **Sources of Operating and Capital Funds** module.

You should now know how to :

- Identify the types and sources of capital and operating funds,
- Describe the importance of federal funding,
- Identify separate sections of the Federal Transit Act,
- Demonstrate your understanding of the history and role of federal legislation in the federal funding process, and
- Describe the process for obtaining federal funds.

TFLEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds

Funding Lingo Essentials

Allocating

Releasing money for use by the project sponsor (the agency, for instance). Usually done annually, and you have to be wary of "use it or lose it" restrictions.

Apportionment

Distribution of Budget Authority made available by statutory formula, or procedure prescribed in law. An apportionment divides amounts available for obligation by specific time period (usually quarters), activities, projects, objects, or a combination thereof. The amounts so apportioned limit the amount of obligations that may be incurred.

Appropriation Act

A statute that generally provides legal authority for federal agencies to incur obligations and to make payments out of Treasury for specified purposes. An appropriation act generally follows enactment of authorizing legislation unless the authorizing legislation provides budget authority.

Authorization Act

Substantive legislation that establishes or continues the operation of a federal program or agency, either indefinitely or for a specific period of time, or that sanctions a particular type of obligation or expenditure within a program. TEA-21 and ISTEA are examples of authorization acts.

Budget Authority

Authority provided by law to enter into financial obligations that will result in immediate or future outlays involving federal government funds.

Capital Funds

These are monies dedicated to new systems or improving/ replacing elements of systems. Examples are widening roads, rail extensions, improving transit stations, new bicycle lanes.

Contract Authority

Authority that permits obligations to be incurred in advance of appropriations or receipts.

Fiscal Year (FY)

Any yearly accounting period, regardless of its relationship to a calendar year. The fiscal year for the federal government begins on October 1 of each year and ends on September 30 of the following year. Many agencies follow a July 1 through June 30 fiscal year, while others may use a calendar year January 1 through December 31.

TFLEx Guide for Transit Newbies

Module 5

Sources of Operating and Capital Funds

Intermodal

An adjective denoting transportation with connections between modes, or types: Automobile, bus, rail, ship, bicycle, walking.

Obligating

Putting allocated funds under contract. This usually has to be done within a fixed time (say, 3 years) or the allocation is lost.

Obligations

An **obligation limitation** is a restriction on the amount of budgetary resources that can be obligated or committed for a specific purpose. The term **obligations** refers to amounts of orders placed, contracts awarded, service received, and similar transactions during the same or a future period.

Operating Funds

Unlike capital funds, operating monies fund day-to-day costs of running transportation systems. Transit examples: fuel, salaries, and repair parts.

Programming

Linking projects with funding, committing dollars to projects under a schedule.

Urbanized Area

Comprises an incorporated place and adjacent densely settled surrounding area that together have a minimum population of 50,000.

Trust Fund

A fund credited with receipts which are earmarked by law and held in trust or in a fiduciary capacity by the Government for use in carrying out specific purposes and programs in accordance with an agreement or a statute.