ALTERNATIVE REVENUE SOURCES

The following is a description of a number of potential revenue sources for Montgomery County transportation and other facilities. Most of these are in place at one or more transit properties around the country. Additional information can be provided if desired.

New Funding Sources

- **Local Payroll Tax:** Portland's Tri-Met transit system is more than 50% funded with a 0.63% payroll tax paid by the corporation rather than the employee. Other options for this type of tax could include a per-employee tax not tied to wage level, also paid by the employer (i.e. $100 per year per employee). A per-employee tax is somewhat more linked to the cost of providing access to improved transportation. Both taxes would allow the county to recover revenue from out-of-county users of county resources, since employers would pay the tax regardless of whether the employee lived in the county or not.
- **Parking Tax for Off-Street Spaces:** A parking tax could be imposed upon property owners that provide off-street parking. This tax would likely be a county-wide tax imposed upon property owners, and would require an initial up-front inventory of parking spaces. There could be exceptions to the tax for certain property types (i.e. for residential property), but in general, such a tax would encourage land use patterns that encourage transit use. It could be implemented in a number of ways, and potentially tied into land use guidelines – perhaps only applied to spaces above the minimum required for the parcel, or with a higher tax rate for spaces above the minimum. It would also be partially passed through to out-of-county users of county businesses. There are no existing examples of such a tax, although some metropolitan areas have considered it.
- **Allowing advertising on transit vehicles or at county facilities:** Generates a limited amount of supplemental revenue by selling advertising space on outside of buses or in high-visibility county-owned facilities. Often generates concerns about public space-pollution, and is not a large source of funding for most counties.

Taxes on Motor Vehicles and Fuels

- **Gallonage Tax on Motor Vehicle Fuel:** The state or county could impose an additional gallonage tax for gas sold in the county, with the proceeds to be dedicated to this project or others. This could be accomplished either through the state dedicating the increase to Montgomery County, or through the county separately collecting the tax. The disadvantage is that the tax does not go up with inflation or the price of gas, and is subject to decline with better fuel efficiency.

- **Extension of State Retail Sales Tax to Motor Fuels:** Virginia funds part of its transportation needs through regional retail sales tax (2%) on motor fuels. The advantage of this over the gallonage tax is that it increases with the price of gasoline. It is also subject to decline with better fuel efficiency.

- **Vehicle License Fees:** Both annual and one-time vehicle registration fees are used by many counties and transit systems to fund transportation. This cost is borne exclusively by in-county residents. The Seattle area and a number of counties in Virginia levy annual registration fees of around $25-50.

Consumer Taxes

- **Local Option Sales Tax:** A number of transportation and facility programs have been successfully funded by supplemental local sales taxes ranging from 0.25% to 1.00%. Some of the most successful programs combined highway, local street and transit improvements in a single package (Orange County's Measure M 0.5% sales tax in California is a good example), while others are solely for public transit (i.e. Denver, Miami). In the case of the Seattle area, careful attention has been paid to sub-areas of the county that require different infrastructure solutions, and sub-area equity is tracked. Thus, taxes collected in one part of the county are specifically re-invested in the same area. The basic lesson from the successful referenda was to include extensive public outreach, and to be very specific about what projects would be built, to provide for oversight, and to demonstrate that existing funds already available to the projects would not be diverted to other uses.

Federal Formula Funding

- **HOV Bus Service:** Ensure that the county gets federal formula funding from the Federal Transit Administration for running Ride-On buses in new HOV or HOT lanes. The current federal formula funding gives much higher funding for the first services in an HOV lane than the cost of running basic service. When the ICC opens, or HOT lanes are added to I-270/495 in the county, Ride-On should consider being the first to add basic service levels in such lanes. The first service adds between $30,000 and $66,000 per segment mile, and $0.56 and $1.67 per vehicle mile, to the federal allocation. It is not uncommon for service that costs $50,000 per year to lead to an agency receiving $500,000 in federal funding. If such revenue flows to Ride-On it can cross-subsidize other services, and reduce the draw on county funding, or allow new services to be introduced.

Typical Joint Development and Benefit Capture Strategies

The following identifies the range of joint development and benefit capture strategies that are typically used by transit agencies and could be applied to county-owned facilities such as transit centers not owned by WMATA and to other county land parcels.

- **Leasing/Selling Development Rights:** In most instances the transit agency would sell or lease the rights to develop the air space over a transit station. This would provide a direct economic benefit to the private developer, as well as to the transit agency that would earn a stream of revenues, or a one-time payment. For example, the redevelopment of South Station in Boston included the construction of office and retail space above and adjacent to the station. According to a 1991 FTA Joint Development report, the Massachusetts Bay Transportation Authority (MBTA) spent $60 million to restore the station's shell before

turning the project over to the private developer. In exchange for the development of the air rights, the developer agreed to pay 50 percent of the annual operating and maintenance cost of the station. In addition, the developer provided a higher quality building finish and HVAC than the MBTA would normally install in a transit station.

- **Leasing/Selling Land or Facilities:** Selling land or facilities that are publicly owned can provide immediate revenues for the transit agency while also disposing of public assets. Leasing of land-based facilities can occur through either a traditional ground lease or a sale/leaseback mechanism.

  A ground lease is similar to the concept of leasing air rights in that the transit agency would lease the rights to develop a piece of publicly-owned property. This provides an opportunity for joint development at a station as well as a steady stream of income for the agency.

  In a sale-leaseback program, the transit agency would sell a land-based facility to a private owner, who then uses the revenues from the lease payment to cover the debt assumed for the purchase. The transit agency receives cash for the sale that can be used for other purposes, while maintaining the use of the property. The private party receives the benefit of depreciation allowances for the property without incurring additional expenses. In some cases the value of the real property could appreciate over time, providing an additional benefit to the private developer.

  One of the most successful projects of this type is the development above WMATA's Ballston Station in Arlington, Virginia. This is a 28 story, 711,500 square foot mixed use development, which was completed in the early 1990's that includes a hotel, condominiums, retail, parking, a bus terminal facility and direct access to both Metrorail and Metrobus services. The joint development included the lease of over 72,000 square feet of property owned by WMATA to the developer and the sale of 15,000 square feet of WMATA owned property to the developer.

- **Special Benefit Assessment Districts:** To capture benefits associated with enhanced real estate development partially attributable to improvements in transportation corridors, several jurisdictions have created special assessment districts. A special assessment is charged upon commercial real estate deriving a special benefit from a nearby capital improvement that is used to cover debt service for the improvement. The special assessment charge typically cannot be more than the cost of the improvement. Frequently, the assessment is apportioned on the basis of the front footage of the land, although other valuations such as the land area, or the value of the property benefited are also used. Benefit assessment districts have been used to finance transit improvements in Denver, Seattle, Minneapolis and Miami as well as highway improvements in Northern Virginia. The assessments rate can be levied uniformly for all commercial property owners within the benefit assessment district, or on a graduated rate based on distance from a rail station. The graduated rate, which was used in Denver for the 16th Street Benefit Assessment District, recognizes that benefits of a transit project are related to proximity to the project. Accordingly, the assessment rate is highest for the properties nearest to the transit station and lowest for those at the boundaries of the district.
- **Cost Sharing:** Developers and property owners wishing to have transit stations integrated with their commercial facilities are sometimes willing to share operating expenses and/or

contribute to capital construction costs. Cost sharing can substantially reduce the costs to the public of constructing selected elements of transit facilities. Typical cost sharing arrangements include private developer funding of elements of a transit station, or the donation of land for a station. Cost sharing arrangements have widely been used by New York City Transit and SEPTA to improve existing stations.

- **Concession Leases:** Transit agencies lease space to retail companies and independent vendors. At a minimum this involves the lease of excess space to newspaper stands and convenience centers. A more aggressive approach includes the cooperative design and development, or renovation or rehabilitation of station space. This more expansive strategy has been applied by SEPTA at commuter rail stations.
- **Density Bonuses:** Similar to the joint development concept, a municipality may provide incentives to developers in exchange for construction of station facilities or amenities. By granting a "density bonus" to a developer, the municipality allows a developer to build at a higher density (usually measured by floor-to-area ratio, or FAR), thereby enabling the developer to gain greater profit from the property. Increased density at or near station areas also has positive effects on transit ridership.
- **Tax Increment Financing:** Tax Increment Districts obtain funds from increases in ad valorum tax revenues that arise from a new infrastructure project. Tax increment districts differ from benefit assessment districts in that they use the diversion of regular tax revenues rather than additional fees. Tax increment financing is based on regularly recurring taxes, participation of all district taxpayers, assessments based on property values (although sales tax revenues have also been used as a basis for assessment). The incremental increase in tax revenues over a designated base year is diverted into a special fund, which can be used for debt service, or for reimbursing municipalities or private financial institutions.
- **Connector Fees:** Connector fees are charges to developers or owners of property that derive a benefit from being connected to an adjacent transportation facility. These are three types of fees: lump sum payments to cover capital costs of the connection to the station; an annual contribution to the operating capital costs of the facility; or "in lieu" dedication of property for station areas or easements. By having direct connections to commercial development, the transit system receives the benefit of additional riders.

Additional Comments and Recommendations from Joseph Mason:

1) Pass-through (sometimes called "shadow") tolling. This program has worked for a few counties in Texas and was initiated by TxDOT. This is a process whereby road/transportation projects can be greatly accelerated. If done between the county and MDOT, it would move projects slated for Montgomery forward in the state CTP. Essentially, the county and MDOT would agree to a minimum and maximum amount of annual funding per vehicle mile traveled and MDOT would pay this annually to the county. The roads would not be tolled. The payment would largely offset the debt service on bonds issued by the county. In order to create a marketable security, the county could use its unlimited tax GO bonds or it could issue limited tax bonds, whereby a limit could be set on ad valorem revenues available. The chief benefits are: that projects are done faster (because the county finances on its own without having to wait for MDOT) but recovers most of the cost of the project over time (which could be

recycled in a revolving fund), MDOT's scarce cash flow resources are stretched, and the county can likely earn self supporting credit for the proportion of debt service funded by state payments (thus avoiding negative rating implications). Problems with the approach include: works primarily for projects that would otherwise be done by MDOT – for county funded roads, you need a different approach. Shadow tolls can also work with the private sector, wherein the county pays a concessionare to build and operate the road, but you need new revenue

2) Oregon (state) just completed a very successful pilot program demonstrating a "vehicle miles traveled" fee as a possible replacement to the gas tax. Perhaps this is something to be discussed with MDOT (using Montgomery as the pilot jurisdication for MD). This concept was referenced in (I think) ULI's infrastructure report (which was excellent), it was deemed problemmatic. Oregon appears to have worked out the kinks to a large extent. In any event, this is a longer term opportunity that has little short-term benefit.

3) In conjunction with potential pending changes to state transporation funding, seek a more definitive local share of highway user revenue funds such that local governments could more effectively securitize that revenue stream. This is done effectively in Arizona and Florida.