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DATE: March 4, 2022
TO: Kelli Badesheim, Executive Director, Valley Regional Transit
FROM: Bonnie Gee Yosick, Andrew Dyke, Justin Sherrill, and Salma Huque, ECONorthwest
SUBJECT: Task 4 Memorandum – Implementation Plan & Appendices

Introduction

The tasks completed during this project were designed to provide Valley Regional Transit (VRT) with a revenue implementation plan that weighs strategic choices to identify a mix of potential revenue sources to satisfy VRT's goals. This report considers the political feasibility of existing and emerging revenue sources, prioritizing long-term sustainability, and identifying achievable incremental steps to move the agency toward its goals.

This analysis included:

1. A review of existing financial conditions and a qualitative evaluation of potential new revenue generation tools, such as value capture, joint development, public-private partnerships, green bonds, branding and advertising, and federal programs.
2. An analysis of promising revenue tools and the conditions under which those tools would raise the $12 million or $48 million required to meet the operating cost estimates outlined in two scenarios described in ValleyConnect 2.0.
3. A review of lessons learned regarding revenue generation from the experiences of other transit agencies.

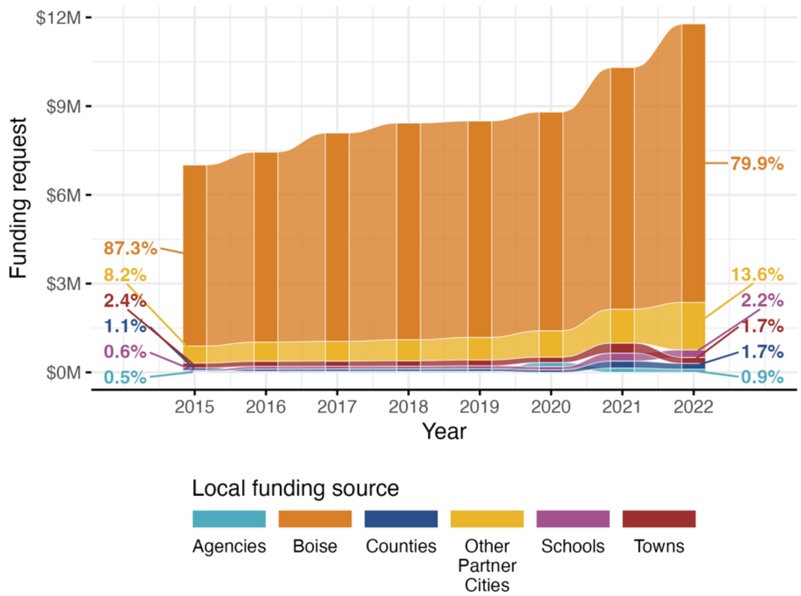
This report summarizes these analyses and describes the steps necessary to implement new revenue raising mechanisms.

Task 1 Summary

VRT currently relies on direct revenue generation (i.e., ridership, advertising, selling property) and a combination of local and federal funding sources to support transit service operations. However, stability and room for growth are essential to providing efficient, reliable transit service to the region. VRT faces a considerable set of obstacles towards establishing a stable and scalable revenue stream outside of federal and directly generated revenue sources. The State of Idaho does not provide dedicated operations or capital funds to public transportation and furthermore, the state prohibits VRT from having taxing authority like other essential services (fire, library, sewer). Lastly, recent legislation will limit the amount of partner jurisdictions' property tax revenue that can be dedicated to VRT and this likely will result in future reductions in the jurisdictions' contributions to VRT.

Figure 1. VRT Local Funding Requests, 2015-2019

Source: VRT



In the last several years, VRT has adopted a cost allocation model that ties funding requests more closely to service levels. As a result, Boise's portion, though increased in nominal dollars, has shrunk from 87.3 percent to just under 79.9 percent, while the larger "core" cities of Nampa, Meridian, and Caldwell have seen their share increase from 8.2 percent to 13.6 percent.

Federal sources, contributing to both operating and capital costs, make up around 40-45 percent of VRT's operating costs. These resources typically come from the FTA's Urbanized Area Formula Program (UAFP), which allocates funds based on urban area population and a transit agency's overall service miles, among other factors. The total available funding can fluctuate based on political tides, in some years resulting in more competition with other transit agencies for a shrinking pot of funds.

About half of VRT's annual operating budget comes from local sources, which are governed by cooperative agreements between VRT and the counties, cities, colleges/universities, development corporations, and highway districts within VRT's service area.

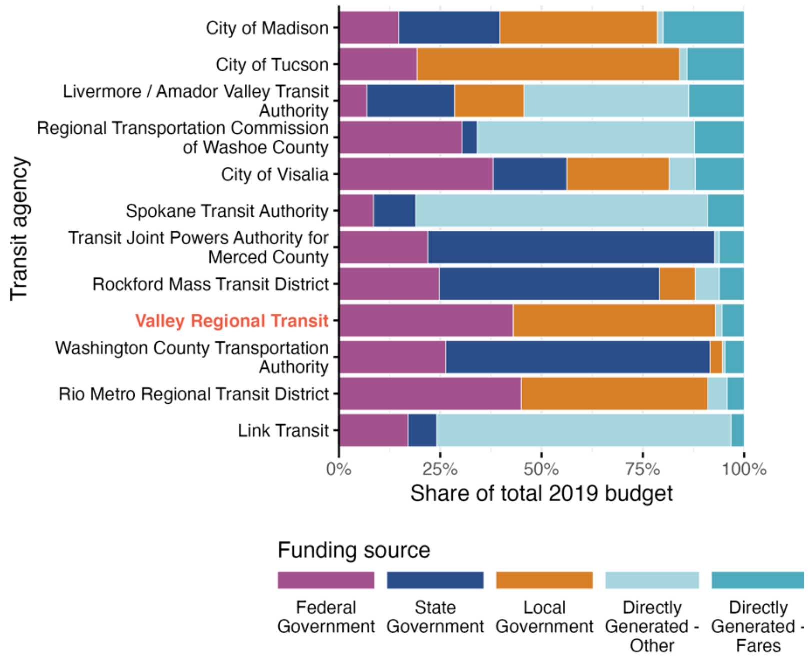
VRT's existing, limited revenue sources constrain potential agency budgets to a greater degree than many of its peers across the US. Specifically, the agency must currently fund its operations without stable state funding or a predictable source of local funds. Each budget cycle, VRT uses its cost allocation model to arrive at funding requests made to local partner jurisdictions based on level of service. But the agency still must negotiate with local jurisdictions on the final amount each local partner will contribute to cover VRT's operating and capital costs.

VRT has adapted to the constraints of its funding arrangement over the years. However, given the Boise metro region's recent high levels of growth, it is imperative that VRT scale up revenue and obtain it from more stable sources if it is to reliably serve the residents of its growing region.

Further information about work performed for Task 1 can be found in Appendix A of this document.

Figure 2. Comparable Transit Agency Budget Sources, 2019[1]

Source: FTA NTD



In addition to the five peer agencies identified in VC2.0, ECO identified seven other US transit agencies that reported running similar amounts of vehicle revenue miles (within ± one percent of 2.15 million vehicle revenue miles). Among these twelve total agencies, only VRT, the City of Tucson, and the Rio Metro Regional Transit District (Albuquerque, New Mexico) reported zero dollars in state funding. Rio Metro's budget ($47.1 million) was over twice that of VRT's.

Task 2 Summary

VRT has two main scenarios for service expansion under their ValleyConnect 2.0 strategic plan: "Intermediate" and "Growth". In these two scenarios, VRT predicts annual operating expenditures between $20 to $43.5 million, and capital expenditures between $98 and $216 million.

For the purposes of this study, VRT updated the two scenarios to accommodate a more short-term "Limited" scenario along with the original "Growth scenario" and to incorporate updated funding requirements and new federal funding sources. Under these two updated scenarios, VRT predicts annual operating expenditures of $12 to $48 million, and capital expenditures between $28 and $97 million (these estimated capital expenditures assume that federal grant money or new infrastructure spending will already provide for 50 percent of actual capital needs).

[1] "Directly Generated – Other" includes sources such as advertising, as well as sales taxes that agencies can directly levy from their service areas.

Limited scenario
- **$28 million capital cost**
- **$12 million annual operating costs**

Growth scenario
- **$97 million capital cost**
- **$48 million annual operating costs**

Key findings from the analysis:

In short, there is no single revenue source that is either currently legal or easily accessible to VRT and that could provide, by itself, the revenue required under even VRT's Limited scenario. VRT's existing revenue sources could be bolstered in the near-term to provide a portion of additional revenue needed under the Limited scenario. However, to reach the Growth scenario revenue targets, VRT would need to develop a core revenue source that is stable and scalable, and combine this with smaller, more supplemental sources. Developing new sources will take significant legal, organizational, and political effort. In detail:

1) Local option payroll and sales taxes are not currently allowed for use by VRT under Idaho State law, and could prove difficult to legalize, depending on legislative and public support. Property taxes are allowed, but there may currently be no specific jurisdictional mechanism VRT could use to levy property taxes directly.

2) Special assessment districts and joint development might be viable as a supplement but are not recommended as primary sources due to the level of effort required and their relatively low anticipated revenue (compared to direct taxes). Joint development in particular offers a flexible and politically neutral method of generating revenue, but would require a substantial portfolio of disposable properties (e.g. not needed for operations). VRT does not currently possess such a portfolio and building one would likely require partnership with local jurisdictions.

   Furthermore, the state government has recently limited local jurisdiction property tax revenue capacity through HB 389, which reduces the rate at which property tax revenue budgets may grow. Without an alternative, this new set of regulations will limit VRT's existing and future revenue streams since partner jurisdictions' budgets will be squeezed between rising expenditures and capped tax revenue growth.

3) Development of any new revenue source will require a concerted, coordinated effort, not only by VRT staff, but also by existing partners, such as member jurisdictions, and the development of new partnerships with existing groups and coalitions (through existing intergovernmental agreements (or "IGAs") or similar mechanisms). VRT will also need to explore development of new groups founded with the primary objective of supporting VRT's efforts.

Summary of revenue tools

Each revenue tool comes with trade-offs in terms of its ease of implementation, scale of revenue generated, political/legal barriers, and suitability for the Limited and Growth Scenarios. The joint development and special assessment district tools are better suited for near-term supplemental revenue generation alongside VRT's current revenue streams (which could also be bolstered in the future). Property, sales, and payroll taxes are better suited as core revenue mainstays that could possibly replace the unpredictable and complex local contribution that VRT currently relies upon. Figure 3 below provides a matrix that compares the high-level findings around each tool from the Task 2 analysis.

Further information about work performed for Task 2 can be found in Appendix C of this document.

Figure 3. Revenue Tool Comparison Matrix

	Property Tax - Service-Scaled Line Item	Property Tax - Service-Scaled Direct Levy	Sales Tax	Payroll Tax	Joint Development (JD)	Special Assessment District
Description	VRT and partners agree upon a fixed percentage of local property tax revenue to be diverted to funding VRT service and capital expenditures for a set period. The percentage is scaled by level of service and the size of the local tax base.	VRT gains the authority to levy property taxes directly within its service area. Taxing districts could be classified as Community Infrastructure Districts (CIDs), with mill rates tailored in each jurisdiction to the area level of service.	VRT gains the authority to levy a local option sales tax within its service area.	VRT gains the authority to levy a local option payroll tax within its service area.	VRT institutes a value capture program in coordination with local developers to lease or dispose of properties, extracting rent, sales revenue, or developer agreements to improve transit infrastructure around sites.	VRT establishes a neighborhood-sized special assessment district(s), within which additional property taxes are levied for the express purpose of improving infrastructure through bonds.
Benefits	Fiscally stable, established mechanism with no serious legal efforts required outside of intergovernmental agreements.	Fiscally stable, currently legal mechanism. VRT's direct mill rates could be lower than many other regional services.	Somewhat stable, existing mechanism that would only need to be expanded within VRT's service area.	Can generate revenue with relatively low rates. Possibly easier to implement than property or sales tax.	Little to no legal obstacles to implementing this program. FTA encourages JD use. No public burden, politically popular	Can be popular with local business sectors, relatively few legal hurdles associated with implementation.
Difficulties	A significantly higher level of local cooperation between VRT and partner jurisdictions would be required. Rates are likely too high	Significant legal/political effort required to gain taxing authority. Good nexus, depending on district coverage.	Local option currently not legal in Idaho, requiring significant legal effort. Avoidance is easier than other taxing tools. Low nexus.	Local option likely not legal in Idaho, with no recent efforts to allow for local option. Significant political effort required. Relatively volatile, low nexus.	Requires large portfolio of valuable property that is also not required for operations.	Requires buy-in from a majority of property-owners in a contiguous commercial district. Limited to capital expenditures.
Revenue Capacity	Core	Core	Core	Core	Supplemental	Supplemental
Scenario Suitability	Limited	Limited & Growth	Limited & Growth	Limited & Growth	Limited & Growth	Limited & Growth

Task 3 Summary

The Task 3 case study analysis draws lessons from other transit agencies' experiences and their degree of success with various alternative revenue sources. These lessons learned by other transit agencies are intended to help VRT focus efforts on the most effective funding sources for their situation. IndyGo, Kansas City Streetcar, and Valley Metro (Phoenix, AZ) were selected as case studies based on their community size, transit agency type, geography, political environment, farebox recovery rate, and revenue sources as transit agencies that operate in similar political climates and geographies compared to VRT (i.e., a larger city surrounded by smaller towns).

IndyGO: IndyGo's partnerships were key to the agency's success. Working with transit advocacy organizations including Transportation4America and TransitCenter, community leaders emerged from the effort to participate in a "Transportation Innovation Academy" to guide the referendum campaign. The campaign focused on three key components:

1. An education campaign led by public agencies, including IndyGo, the transit agency;
2. A political campaign, named Transit Drives Indy, led by the Indy Chamber and the regional real estate brokers' association which was instrumental in raising a reported $500,000 to fund polling, direct mail, social media advertising, and other voter engagement, reaching half a million voters; and
3. A grassroots mobilization effort, led by the Indianapolis Congressional Action Network (IndyCAN), which trained over 1,200 volunteers who made 165,000 calls to educate Indianapolis residents about the benefits of public transit.

The resulting approval boosted IndyGo funding by $56 million annually (32 percent of the operating budget) through the 0.25 percent supplemental income tax. The new funding enabled more frequent buses on faster routes and the creation of three new bus rapid transit lines.

The Indianapolis Public Transportation Foundation (IPTF) was established in February 2020 and is now governed by an 8-member Board of Directors. The stated mission of the Foundation is to help the community thrive by connecting people through accessible, equitable, and inclusive mobility solutions by enhancing services for those who rely on it and for those who choose it. Underlying this mission is the need to raise 10 percent of IndyGo's operating costs through non-fare, non-tax sources, like state and federal grants as stipulated in the 2014 law that has helped fund recent IndyGo system expansions.

Kansas City Streetcar: Following numerous failed attempts to fund streetcar lines at the ballot box, transit proponents focused their efforts on a downtown starter line with localized funding– a measure which passed in 2011. The key to passing the initiative was a narrow geographic focus as well as strategies to build community trust. The Streetcar was designed with a focus on the experience of end users, including fareless riding to remove frictions during boarding and deboarding as well as a vehicle selected for its accessibility.

On the funding side, the Streetcar passed based on the tenet that the people who benefit from it would pay for it. This approach led to the formation of the Transit Development District (TDD), whose borders are generally within ten blocks of the starter line. Revenue projections were kept conservative, and the expense side was kept steady and predictable as a strategy to build trust. With a steady start and continued support, the Streetcar service has expanded outward. Key to this strategy is support from a diversified retail base as well as from the University of Missouri-Kansas City.

Valley Metro: RPTA funding includes Public Transportation Fund (PTF) funding and member city contributions. The Public Transportation Fund (PTF) measure was passed in 2004 as part of a larger ballot measure that included funding mainly for highways and arterials. Bundling transit with other transportation funding measures helped gain broader support. The metropolitan planning organization, Maricopa Association of Governments, spearheaded the proposition and helped strategize funding.

The legislatively permitted half-percent sales tax for Maricopa County is half of the other counties' one percent sales tax, supplemented with member-city contributions that are individually negotiated contracts. When there are threats to revenue streams such as COVID-19 or a decrease in annual funding, the decentralized structure of RPTA allows them to negotiate directly with individual cities rather than the entire governing body. In addition, some of the member cities have their own transportation taxes which help supplement revenue.

Key lessons learned from the peer agencies include:

- Build Community Trust. VRT needs to keep the focus on the end user and engage community organizers in addition to planners. The focus should be on ease of use for riders and projections should be conservative, rather than aspirational.
- Consider Equity. VRT focuses the costs of the system on those who benefit from it, considering the identities and limitations of the riders as well as nearby businesses and community partners.
- Maximize Support – Private and Public. Achieving wins in the VRT service area will mean working with people across the political spectrum, leveraging any other transit partners in the area, and consider formation of a dedicated philanthropic foundation to leverage charitable organizations as well as corporate and community sponsors.
- Build Partners and Advocates. Given legal limitations, and a need to engage voters and rally political will, VRT would benefit from the support of an advocacy organization for ballot measures and similar campaigns.

Implementation Plan - Recommended Steps

These considerations culminate in a series of actions VRT should take now to ensure stable operating funding for its future. The plan to initiate and cultivate these efforts will require a phased approach. First, the initial goal will be to strengthen and stabilize existing sources with some incremental improvements. That fortified foundation will allow VRT to better build for the future. For each step, VRT will play a critical role in fostering cooperation and coordination. These suggested steps may represent opportunities for VRT or partner organizations in concert with one another.

Phase 1 might include the following:

1. Develop Partnerships and Build Advocates
    a. Local champions who can lead advocacy and philanthropic partnerships
    b. Member communities who can effectively support VRT through a variety of means, including stabilizing jurisdiction-based revenue and transit-supportive development, among others

2. Build incrementally through small wins

3. Continue to identify and pursue federal funding

These foundational steps will form the framework of political and community support needed to pursue steps for the next phase, which will need to be scaled according to community needs and desires. The steps may include:

1. Continue cultivating partners.
    a. Support advocacy and philanthropic partners with resources for technical support and training
    b. Leverage partnerships with equity programming to improve equity and access

2. Further explore political and legal feasibility for specific local revenue sources.

These steps will flex in scope, scale, and timing depending on the community needs and political appetite for transit services. But these foundational steps will be required to pursue nearly any new local funding, given the legislative requirements involved with implementing any new funding source. As such, these are some key considerations as VRT implements Phase 1 of this plan.

Phase 1 Implementation Plan Steps

Strengthen core revenue sources via a standardized formula: This project included analysis of a "service-scaled line-item" scenario that assumed VRT would request a specific share of local governments' property tax revenue in lieu of the current funding request structure. The analysis provides a general understanding of how such a request, based on current assumptions about service use, relates to total property tax collections for each entity in VRT's district. This approach would require significant efforts to implement and adjustments over time when populations and service provision shift to a meaningful degree. This approach would provide more stability and predictability than VRT's current funding requests. Based on the analysis, we anticipate this approach could largely fund VRT operations under the limited scenario or form a solid core of revenue for the ambitious growth scenario.

Develop Strategies to Further Increase Directly-Generated Revenue: VRT may evaluate its advertising and fare revenue programs to explore ways to increase and stabilize revenue from these sources. Strategies may include auto-enroll-type programs whereby users and advertisers have the convenience of signing up for regular service, billing, and payment.

Develop Partners and Advocates: Local champions (who are not VRT staff or board members) will be needed to fill the important roles of advocacy and grassroots organizing that the VRT staff and board will be unable to fulfill. These partners will be critical for any potential measure that will require political will or support at the ballot box. These local champions should be connected with national transit advocacy organizations, training opportunities, and other resources to succeed as successful transit partners. Partnerships with transit advocacy organizations proved critical for peer agencies since publicly-funded agencies like VRT are limited to "voter education" and advocacy partners and grassroots mobilization efforts can do much more to help achieve political wins.

Local champions include not only partners in advocacy and grassroots efforts, but also philanthropic partners. Foundations supporting transit agencies have been formed to support a wide range of public agencies such as schools, hospitals, and other public-benefit organizations. Again, the example of IndyGo shows how a foundation can help to achieve another independent (and hopefully, reliable) revenue stream.

Support member jurisdictions and others to become more effective partners: Regional coordination can be beneficial in a variety of ways. One example is through the considerable influence member jurisdictions can leverage over the built environment to support transit-supportive development. Although VRT does not itself grant development entitlements or building permits, VRT might consider working with member cities to create and adopt development standards which support VRT's goals, either through direct development guidance, conditions of development approval, or similar. VRT could consider developing and providing model ordinance language or "tip sheets" for partner jurisdictions which might serve to benefit the region in a number of ways: providing consistency across jurisdictions, and directly encouraging transit-supportive development, to name just a few.

Leverage partners to develop sponsors: The advocacy and philanthropic partners can also be instrumental in helping to develop sponsors in the business community. Although VRT can sell advertising outright on its buses, stations, or other property, sometimes a sponsorship through a philanthropic partner will be more financially advantageous for a business partner. And similarly, there may be opportunities for the advocacy partner to work more directly with the business community and act as a fiscal agent, especially during an active campaign.

Continue to identify and pursue opportunities for federal funding: Federal funding has been and will continue to be critical for new capital improvements not only for VRT but for many transit agencies nationwide. Keeping an eye to these larger resources will not only provide funds for those types of larger scale capital improvements, it will also assure the community that VRT is a responsible steward of limited local resources and a worthy recipient of federal funding.

Build incrementally through small wins: Accept that some community members may not be immediate supporters of transit; consequently VRT could scale the scope of projects to those likely to gain support and build from that incremental success. In many cases, these skeptics can be converted to supporters after observing successes of initial investments. In all cases, VRT and its partners need to respect opposition and accept that some community members may continue to resist transit expansions. Mutual respect and acknowledgement of the validity of such opinions will be important to building the broad coalition of support needed to continue advancing VRT's mission.

Using Kansas City as an example, the first streetcar line was focused on a very small geographic area downtown with limited specialized retail services. The subsequent success of that line demonstrated the value of the streetcar line to businesses operating in an adjacent and much larger geography, so much so that they are now actively participating in and advocating for an expansion of the streetcar line.

Several of these foundational steps may already be underway, and they will form the scaffold for any new funding, which will be further developed and refined in Phase 2. The scale and level of effort for the steps in Phase 2 will need to consider a variety of factors present in the region, including the needs of the travelling public, the appetite for increased financial support from the community and member cities, and the extent to which transit ridership and the economy in general has recovered from the pandemic and other external shocks.

Phase 2 Implementation Plan Steps

Continue cultivating partners: As the local champions develop networks and build skills to develop advocacy and philanthropic organization support, they will benefit not only from meaningful engagement opportunities but also with resources for technical support and training. These partners will be instrumental in both a Limited and Growth Scenario, as development of any new revenue source will likely require legislative action.

Using IndyGo in Indianapolis as an example, IndyGo connected supporters from the community to national transit advocacy organizations including Transporation4America and TransitCenter, who engaged those new community leaders from the IndyGo area. They provided training and guidance by hosting a "Transportation Innovation Academy," which afforded community leaders with the tools to support IndyGo's referendum campaign needed to win a political campaign. While the educational component was led by IndyGo itself, the advocacy and the contact with voters were carried out through the advocacy organization "Transit Drives Indy" which took on fundraising and messaging, and leveraged the grassroots efforts of volunteers, mobilized to talk directly to voters. These national advocacy organizations regularly host similar programs from which advocates can learn from both national experts and their peers to become effective advocates.

Leverage partners with equity programming: Philanthropic partners often support their partner agency with grants and other programming to improve equity and access. As a philanthropic partner organization matures, it can take on this role to help advance the agency's mission.

Looking to IndyGo's example, the agency's philanthropic partner, Indiana Public Transportation Foundation was initially established with the goal of helping IndyGo secure the percentage of outside funding required by statute, and it also provides bus pass grants and discounts to nonprofit organizations, to better support IndyGo's mission to connect people in the Indianapolis region through accessible, equitable, and inclusive mobility solutions.

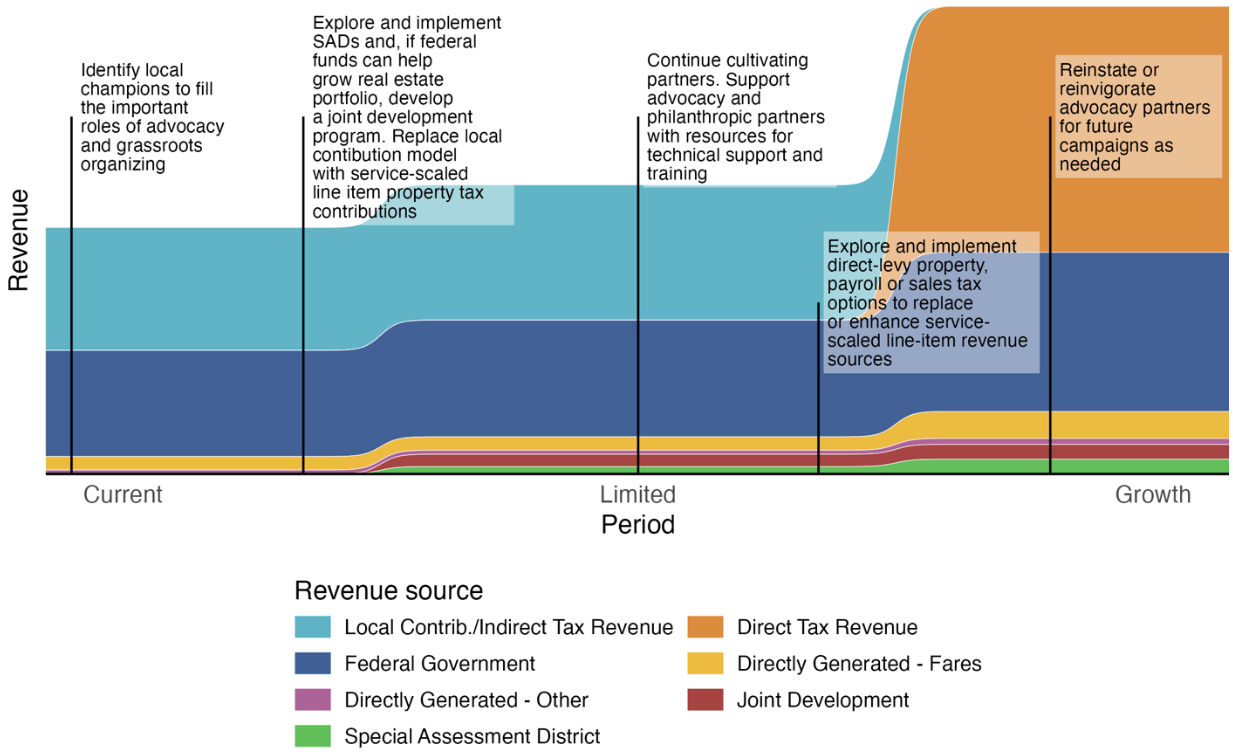
Further explore feasibility of new targeted property taxes: Based on our analysis, the most promising potential revenue source for the near-term appears to be a new property tax levied through a Special Assessment District or Business Improvement District. Our analysis demonstrated that an example district could raise substantial revenue with reasonable mill rates. These districts require approval of district members or property owners, depending on the structure, underscoring the value of the preceding recommendations. Defining the district in a way that provides both the required nexus with VRT services and sufficient support within the district is a critical step in this process. A successful campaign to implement a new taxing district would lay the groundwork for implementing more ambitious revenue options, such as a payroll or sales tax, that may prove necessary to fully fund Valley Connect 2.0 or the "Growth" option.

Further explore feasibility of joint development opportunities: VRT should leverage joint development partnerships with the support of developers and municipal partners and evaluate parcel-based opportunities presented by potential new projects. While relevant for the "limited" scenario, this step will be especially critical in aspiring to reach the "growth" scenario. One possibility for this exploration might be to evaluate a development opportunity and feasibility analysis on publicly owned parcels in the region's corridors, such as some basic mixed-use, multifamily residential, and commercial proformas on a curated list of parcels that meet some screening criteria (such as proximity to station areas, aggregation of and size of parcels, access to amenities, and equity factors, among others).

Figure 4 provides one possible progression from a Limited to a Growth scenario, as VRT implements a strategy based around bolstering existing revenue, expanding a local advocacy and support network, and replacing the existing core revenue stream with a direct tax (property, sales, or payroll, or other not studied in this report).

Figure 4. Example Scenario Progression and Implementation Pathway

Source: ECONorthwest



A diagram of the recommended key steps in the implementation plan are shown in Figure 5 below. Many of the recommended steps in Phases 1 and 2 will be required for both the limited and growth scenarios, though the growth scenario explores the more ambitious revenue options that may be required to fully fund ValleyConnect 2.0. Phase 3 of the implementation plan would be contingent on VRT pursuing the growth scenario, and as such, be highly contingent on prior phases. Wholly new core funding sources (sales, payroll, or direct property tax levies) would depend on legislative action that is, to a significant extent, outside of VRT's control.

Further information about work performed for Task 3 can be found in Appendix B of this document.

Figure 5. Phased Implementation Plan and Suggested Steps
Source: ECONorthwest

Phase 1: Limited & Growth

Develop Partners & Advocates
Identify local champions (who are not VRT staff or board members) to fill the important roles of advocacy and grassroots organizing. Connect these local champions with national transit advocacy organizations, training opportunities, and other resources to succeed as successful transit partners.

Build Partnership with Member Cities
Work with member cities to create and adopt development standards which support VRT's goals, either through direct development guidance, conditions of development approval, or similar.

Develop New Resource
Continue to identify and pursue federal funding. Continue to expand advertising funding.

Phase 2: Limited & Growth

Develop Partners & Advocates
Leverage partners for: campaigns, equity programming, develop sponsors

Build Partnership with Member Cities
Consider developing and providing model ordinance language or "tip sheets" for partner jurisdictions

Develop New Resource
Explore Special Assessment District or Business Improvement District.

If federal funds can provide property for property acquisition, develop a joint development program.

Bolster core revenue via a standardized, service-scaled property tax revenue requests from member jurisdcitions.

Phase 3: Growth

Develop Partners & Advocates
Reinstate or reinvigorate advocacy partners for future campaigns as needed

Build Partnership with Member Cities
Continue to support and coordinate regional efforts to encourage transit-supportive development.

Develop New Resource
Explore direct-levy property, payroll or sales tax options to replace or enhance service-scaled line-item revenue sources.

Appendix

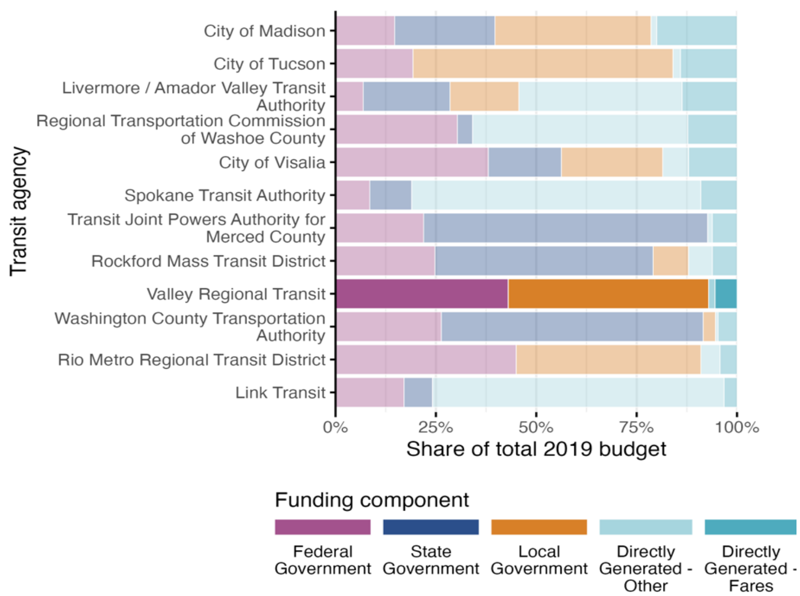
Appendix A: Existing Conditions

This appendix aims to provide a baseline understanding of Valley Regional Transit's (VRT) budget, primarily through an analysis of the major sources of revenue and their relative stability. VRT has adopted an ambitious strategic plan in ValleyConnect 2.0, with several service expansion scenarios, each with an associated level of new funding and capital revenue required for implementation. This appendix also explores a set of alternative revenue generation tools that will further explored quantitatively in Task 2 as well as qualitatively through case studies in Task 3.

Agency revenue review and existing sources

As of the writing of this report, VRT had a budgeted revenue for FY2020 of $34.0 million with an actual revenue of $21.2 million. The $12.8 million shortfall between the budgeted and actual amounts was almost entirely ($11.3 million) due to shortfalls in VRT's capital funds budget, with revenue from federal capital sources falling short by about $8.4 million. This 2020 capital revenue shortfall follows on the heels of a $7 million shortfall in VRT's 2019 budget.

Figure 1. Comparable Transit Agency Budget Sources, 2019[2]
Source: FTA NTD



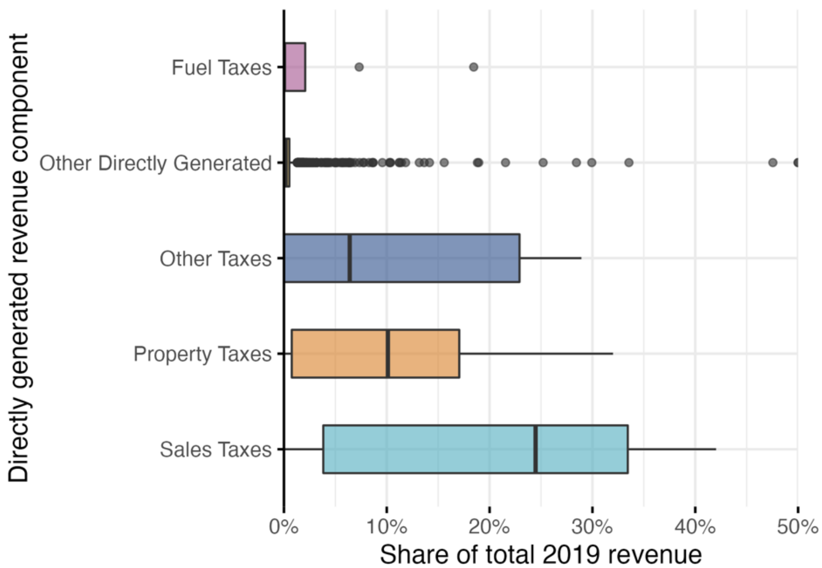
In addition to the five peer agencies identified in VC2.0, ECONW identified seven other US transit agencies that reported running similar amounts of vehicle revenue miles (within ±1 percent of 2.15 million VRM). Of these twelve total agencies, only VRT, City of Tucson, and Rio Metro Regional Transit District (Albuquerque, New Mexico) reported zero state funding. Rio Metro's budget ($47.1M) was over twice that of VRT's.

[2] "Directly Generated – Other" includes sources such as advertising, as well as sales taxes that agencies can directly levy from their service areas.

VRT's total revenue has increased by about $2.1 million (an increase of 11 percent) since 2018, with half of that increase attributable to increases in local funds.

Figure 1 shows that, according to FTA revenue classifications[3] among VRT's peer agencies, *total* directly generated revenue may fluctuate greatly – between 10 percent to 75 percent of total agency revenue – but this fluctuation is largely driven by whether the agency is authorized to directly generate revenue from sources such as sales or property taxes. Most of VRT's peer agencies only rely on fares for about five percent to 15 percent of their total revenue, whereas directly generated taxes (such as those levied by Washoe County or Spokane Transit Agencies) provide substantial revenues to those agencies – between 30 percent to 50 percent of total revenue (though, in exchange, those agencies typically do not rely on local revenue contributions).

Figure 2. Directly generated revenue sources as a percentage of total revenue
Source: FTA NTD



Among all transit agencies that generate direct revenue through means other than fares, sales taxes tend to generate the highest shares of revenue, with a median of about 25 percent of total revenue. Property taxes and "other" taxes (income, payroll, etc.) tend to deliver an average of five percent to 10 percent of agency revenues, while other directly generated sources are typically small components of agencies' revenues.

Funding sources

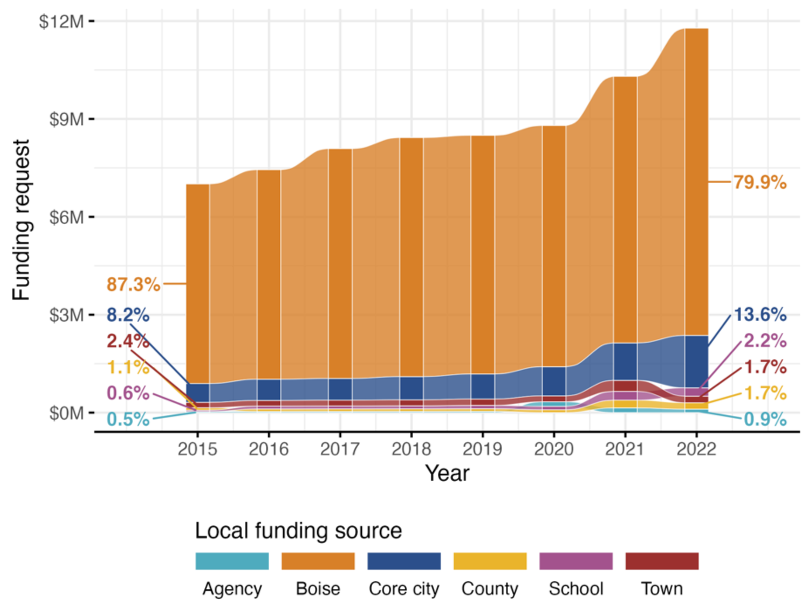
Since Idaho does not provide dedicated operations or capital funds to public transportation, VRT relies on direct revenue generation (i.e., ridership, advertising, selling property) and a combination of local and federal funding sources.

[3] FTA groups agency revenue sources into four primary categories: Direct, Federal, State, and Local. Directly generated revenue includes fares, as well as tax revenues that agencies levy independently (including, sales, property, fuel, and income taxes). Other direct revenue sources can include sources such as advertising and park & ride fees, or other highly particular and temporary sources like the sale of assets.

Farebox recovery makes up only a small portion of VRT's overall annual revenue, typically between 3.5 to 5 percent.

Figure 3. VRT Local Funding Requests, 2015-2019

Source: VRT



Since 2015, the share of local funding requests made to VRT's larger city partners has shifted. Boise's portion, though increased in nominal dollars, has shrunk from 87.3 percent to just under 80 percent, while the larger "core" cities of Nampa, Meridian, and Caldwell have seen their share increase from 8.2 percent to 13.6 percent.

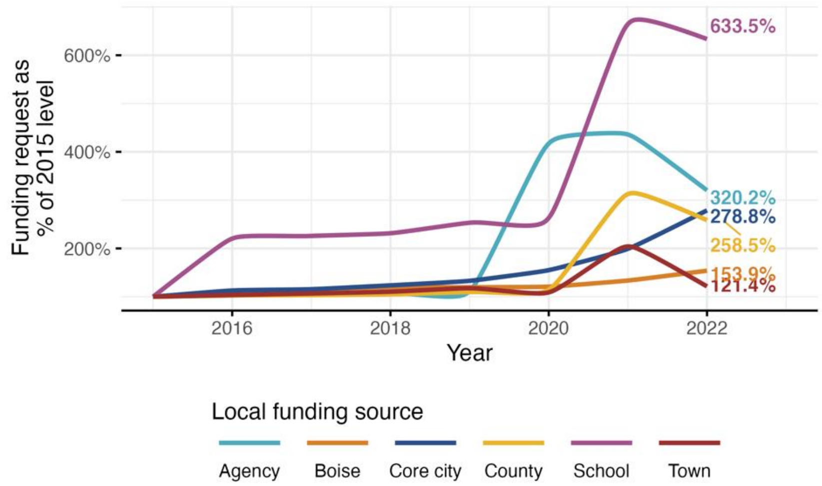
Federal sources, contributing to both operating and capital costs, make up around 45 to 50 percent of VRT's annual revenue, with about 66 percent of federal revenue typically directed towards VRT's operating costs. These sources typically come from the FTA's Urbanized Area Formula Program (UAFP), which allocates funds based on urban area population and a transit agency's overall service miles, among other factors. Federal funding can fluctuate based on political tides, thus causing federal budget constraints that create more competition with other transit agencies for a shrinking pot of funds.

About 45 to 50 percent of VRT's annual operating budget comes from local contribution sources, which are governed by cooperative agreements with the local counties, cities, colleges/universities, development corporations, and highway districts within VRT's service area.

Since 2015, VRT's local funding contributions have had an average annual growth rate of about 7.7 percent. Compared to other funding sources in VRT's budget, the total local operating contributions have been relatively stable since 2015, though VRT's requested contributions increased by $3 million (a 34 percent increase) between 2020 and 2022.

Between 2015 and 2019, local funding requests made of most local funding partners has stayed relatively steady beginning with 2020's funding requests. However, most funding requests to partners saw significant increases. In fact, requests to schools are currently 634 percent of 2015 levels, while requests to towns are only 121 percent of 2015 levels. Requests to Boise and the core cities of the service area have gradually increased, though as seen in Figure 2, they make up the vast majority of VRT's local revenue.

Figure 4. Change in VRT Local Funding Requests, 2015-2022
Source: VRT



Fiscal uncertainty

Beginning in 2020, VRT reformatted their local funding request formula to better account for their expected annual expenses and to better communicate to partners their proportionate share of VRT's services to their communities. Local funding requests are based on a mixture of a jurisdiction's share of population (if it contains any) and service miles within their borders, and requests are split into four categories: General Assessments, Service Contributions, Capital Contributions, and Special Assessments. The last, Special Assessments, are negotiated amounts that are made based on individual projects and programs, and by extension are more uncertain than the other request components. Given that these local funding requests are based on cooperative agreements and are therefore temporary and subject to negotiations with different political actors over time, there is a degree of long-term fiscal uncertainty inherent to VRT's budgets.

Further compounding long-term unpredictability in VRT's revenue, the Idaho state legislature recently passed House Bill 389, an expansive property tax and local budget reform bill. Among other provisions, HB 389 will limit the taxable value of all new construction and annexed property to 90 percent of its assessed value and set an 8 percent cap on the annual growth in jurisdiction property tax revenues (for context, about 84 percent of Boise's actual 2021 revenue comes from property taxes). Furthermore, HB 389 sets an 80 percent limit on the taxable increment jurisdictions may collect from properties coming off the rolls of an urban renewal revenue allocation area. It remains to be seen what the full effects of HB 389 will be on Treasure

Valley's expected growth & development, and by extension, VRT's expected revenue. At minimum, this legislation will constrain the ability of VRT's local partners to raise revenue in the years to come.

ValleyConnect 2.0 and future revenue gaps

VRT has already identified two main scenarios for service expansion under their ValleyConnect 2.0 strategic plan: "Intermediate" and "Growth". For these two scenarios, VRT predicts annual operating costs of $12 to $48 million, and capital expenditures of between $28 and $97 million (These scenarios assume 50 percent coverage of capital costs through federal grant money).

Limited scenario

- **$28 million capital cost**
- **$12 million annual operating costs**

Growth scenario

- **$97 million capital cost**
- **$48 million annual operating costs**

Alternative revenue options

Given the constraints and uncertainty inherent to VRT's annual revenue streams, the following sections in this report aim to introduce a selection of possible new revenue generation tools that could not only add revenue to VRT's budget in advance of ValleyConnect 2.0 service expansions, but also add a greater degree of stability and predictability to VRT's financial outlook in the event of more serious disruptions to local and federal funding sources.

This memo provides an overview of six different revenue generation tools: value capture, joint development, public private partnership, green bonds, branding & advertising, and new federal programs. Some of these tools were chosen based partly on prior conversations with VRT staff, while others were chosen because we see their potential for providing stable and substantial revenue or are more feasible within VRTs local context. However, this list is not exhaustive, and tools can be added or subtracted from this list if VRT staff are interested in exploring other tools.

Local Taxes

Many transit agencies have the authority to directly levy taxes from their service areas, typically in the form of sales, property, income/payroll, use, or fuel taxes. Typically, these taxing authorities can only be granted to transit agencies through a local or statewide vote, which can be politically fraught and expensive undertakings.

While sales tax revenues can provide significant funds to agencies, they are, long-term, more volatile, and susceptible to economic downtowns compared to property taxes. Introducing completely new tax revenue streams is fairly rare for transit agencies (due to political difficulties) and is often balanced by decreasing revenue from existing revenue sources.

For example, in 2020, voters in Cincinnati's Southwest Ohio Regional Transit Authority (SORTA) approved a wholly new sales tax levy to fund SORTA's operations. In actuality, the measure *decreased* SORTA's existing primary revenue source – a 2.1 percent citywide earnings tax – by 0.3 percent and introduced a new 0.8 percent countywide sales tax. However, this balancing act resulted in a nearly $50 million net increase in SORTA's annual revenue. Proponents of the measure argued the decrease to the earnings tax would make the Cincinnati region more attractive to businesses (a politically popular effort, given the region's economic struggles) while the increased revenue from sales taxes would allow the agency to provide modernized, expanded transit service with sustainable funding.

Public-Private Partnerships

A public-private partnership (3P) is a contractual arrangement between a transit agency and a private partner to assist in the design and construction, and potentially also in the financing, management, and operations of infrastructure.

A 3P diverges from the traditional "design-bid-build" model of development where the transit agency is responsible for most of the above activities but contracts out the construction. The design-bid-build model places the development risk on the transit agency, both to efficiently manage their investment as well as to select a satisfactory construction partner. By contrast, a 3P incorporates the partner into multiple phases of the development. This arrangement allows for transit agencies to take advantage of the expertise of private developers and create natural efficiencies in the process, reducing time and costs. Additionally, it spreads risk across multiple parties rather than solely on the transit agency.

Transit agencies tend to use 3Ps when developing large scale infrastructure and capital improvements, though they typically do not provide opportunities to generate operating revenue. Projects with 3P collaboration have price tags anywhere from $112 million to $1.14 billion.

Some critics disapprove of 3Ps use of public funding to hire private sector businesses because profits are retained in the private sector. As with any partnership, the transit agency will lose some control over the development process and potentially operations and maintenance. Transit agencies must carefully consider the selection of partners to ensure efficiencies are being created.

Joint Development

Joint development occurs when the transit agency allows a private developer to improve on land the agency owns. After development, the agency retains ownership of the land but enters an agreement to share resulting revenue with the developer.

An example would be a transit agency which set land aside for a parking lot near a station, but then decided not to complete it. The agency could then work with a residential developer to build apartments on that land taking advantage of the proximity to transit options. The resulting revenue from the sale or lease of apartments would be shared between the agency and developer, while the property itself is retained by the agency.

Tyler, TX used a joint development agreement to redevelop an unused rail station. Their Innovation Pipeline received $400,000 in private investment and is a widely hailed success.

This agreement benefits agencies which own tracts of undeveloped land that may have been set aside for future purposes but are now unused. The agreement could also be used for properties with older transit infrastructure which are then converted. Development can vary from residential to commercial to mixed use as determined by zoning and market demand. The key benefit to joint development agreements is that similar to 3Ps, they spread risk across multiple partners rather than fronting all costs.

Branding and Advertising

Advertising is a common method of fundraising for transit agencies where they sell space or opportunities that promote other businesses. There are myriad ways an agency can offer advertising space; the most common include exterior and interior advertising on buses, trams, and railcars. More creative options can include digital advertisement space on the agency website, leasing space for billboards on agency property, creation of an online agency gift shop, or other options.

In addition to physical and electronic advertisements, many agencies have sold or leased naming rights to their stations, routes, and vehicles to corporate partners. This "branding" can be used to highlight local businesses in addition to larger companies.

The above examples provide transit agencies with opportunities to raise money with minimal capital investment. The revenue gained from branding and advertising varies depending on the tool used. A sponsored station in a major city may raise 3 to 4 million dollars over several years. Wrap advertising on rail or buses can raise anywhere from $5,000 to $600,000 annually. One city's webpage advertisement raised $1,000 to $5,000 monthly. Another city's streetcar stops were "sold" to businesses for 500 dollars a month, raising about $250,000 in one year. While VRT already has a robust advertising program, they could consider expanding the program using some of the methods explored above.

Value Capture

Value capture mechanisms rely on the assumption that public investments in transportation infrastructure create added value that other institutions benefit from. Capturing a portion of this increased value allows the transit agency to recoup that investment and use it for additional projects. Value capture is implemented in different ways that all attempt to measure the change in value associated with the transit project.

The National Academies of Sciences, Engineering, and Medicine (NASEM) cite several "enabling conditions" that a region needs to successfully implement a value capture mechanism (2016). The region where the proposed district will be created must have zoning and land use measures that enable such a district to be created. In addition, the proposed district must have a robust real estate market that can withstand additional taxation measures. Finally, there must be a compelling argument for the necessity of such a district, and property owners in the district must be on board. Idaho law requires two-thirds of property owners in a proposed district to vote in favor of its creation for the proposal to pass (Idaho State Legislature 2008).

Tax Increment Financing (TIF)

TIF relies on anticipated tax revenue to fund transit projects. Ad valorem taxes in a district are frozen for a period of time and any additional tax revenue from increases in assessed property value are remitted to the local government or transit agency with the understanding that these increases can be attributed to agency investments. This method allows agencies to invest in infrastructure up front and rely on future revenues to reimburse the investment.

TIF relies on a key assumption: that assessed values in the district will increase. If assessed values remain fixed or decrease, the agency's ability to generate revenue may decrease (The World Bank 2021). An additional caveat is that the assessed value calculation methodology is not transparent, and thus cannot always be trusted as an accurate estimation of financial value.

Special Assessment Districts (SADs)

This method levies an additional tax on existing development in a designated district that will benefit from infrastructure investment. Rather than relying on anticipated value increases, this method roots value capture in the existing infrastructure.

While SADs are less speculative than TIFs, their creation commonly relies on a majority vote of property owners within the proposed district. As mentioned above, Idaho State Legislature stipulates a two-thirds majority vote in favor. Owners believe they will benefit from the infrastructure, and therefore, are willing to invest in it. The taxing district is usually a temporary creation with a fixed expiration date.

However, the fact that SADs capture tax revenue from existing properties can be complicated by policy decisions. In addition, Idaho State Legislature states "the maximum amount of any special assessment that may be imposed shall not be increased over time by any amount exceeding two percent (2 percent) per year, up to a maximum of ten percent (10 percent)," (2008). This restriction limits the district's ability to take advantage of unexpected increases in market value.

Value capture techniques are often used in combination with other methods to raise revenue. One transit agency raised one-third of total costs for a streetcar system ($82 million) using special assessments, TIF, and parking fees Another used special assessment districts to finance one-fifth of their rail system extension ($1.14 billion). Another agency raised 45 percent ($112 million) of construction costs necessary to create a new streetcar system using a combination of value capture and other tools.

Green Bonds

Green bonds are any bonds that are earmarked for climate and environmental projects. They are subject to the same rules and regulations as traditional bonds, but their environmental emphasis attracts a unique mix of investors.[4]

Most transit projects qualify for green bond funding due to the reduction in greenhouse gas emissions associated with their operation.

Several standards exist to determine whether a project qualifies for a green bond. The Climate Bonds Initiative is a certification program that lists project types designated as "low-carbon transportation" (and thus eligible for funding), including tramways, metro, public bikes, and electric vehicles. In addition, groups like the International Capital Markets Association have released guidelines and handbooks associated with green financing that also provide useful definitions and standards.

Green bonds can appeal to transit agencies over traditional bonds due to their signaling to investors. Demand for financing methods that generate positive environmental and social effects is increasing and puts pressure on investors to identify those investments. For example, in 2015 one major transit agency issued a $1 billion green bond to help finance their light-rail system. In addition, green bonds are less likely to be impacted by the potential tightening of environmental regulations. Finally, they appeal a broader pool of investors who are concerned with sustainability and can simultaneously avoid opposition pushback from environmentally conscious stakeholders.

However, there is a misunderstanding amongst some investors about the definition and benefits of green bonds, which leads investors to avoid them. In addition, there is a risk of pushback or reputational damage if the advertised environmental benefits are not achieved.

Finally, NASEM (2021) recommends not using green bonds if the costs of reporting significantly increase the net cost of funding or when the project has unclear environmental impacts.

Federal Funding

The Infrastructure Investment and Jobs Act is projected to allocate $192 million over five years to improve public transportation options across Idaho (based on formula funding). This act is a key one-time opportunity to address VRT's deferred maintenance and capital improvements.

The Federal Transit Administration (FTA) provides capital investment grants annually. For fiscal year 2022, the federal budget recommended $2.5 billion set aside for the completion of rail, bus rapid transit, and streetcar projects in twelve states (not including Idaho).

[4] Note that this section relies heavily on research published in NASEM (2021).

Appendix B: Case Studies Analysis

This case study analysis draws lessons from other transit agencies' experiences and their degree of success with various alternative revenue sources. Synthesizing these lessons learned by other transit agencies can help VRT focus efforts on the most effective funding sources for their situation.

IndyGo, Kansas City Streetcar, and Valley Metro (Phoenix, AZ) were selected as case studies based on their community size, transit agency type, geography, political environment, farebox recovery rate, and revenue sources as transit agencies that operate in similar political climates and geographies as VRT (i.e., a larger city surrounded by smaller towns) .

We reached out to the selected transit agencies and had thirty- to sixty-minute conversations with employees experienced in the agency's financial management. Exhibit 1 provides a list of our contacts at each agency.

Exhibit 1. List of Contacts

Agency Name	Location	Contact Name	Contact Title
IndyGo	Indianapolis, IN	Inez Evans	President & CEO
IndyGo	Indianapolis, IN	Bart Brown	CFO
IndyGo	Indianapolis, IN	Hardi Shah	Deputy CFO
Kansas City Streetcar	Kansas City, MO	Lauren Crutty	Planning and Operations Manager
Valley Metro	Phoenix, AZ	Joshua Hope	Senior Management Analyst
Valley Metro	Phoenix, AZ	Omar Peters	Capital Planning Manager

Each case study section describes summary-level background and financial information on the agencies selected as case studies to provide the reader with an understanding of their operating contexts, but focus the case study narratives on lessons related to implementing new revenue sources.

Case Study 1: IndyGo

Background

IndyGo is a regional transit agency operating in Marion County, Indiana. Started as a municipal corporation of the consolidated city-county of Indianapolis-Marion County, it is run by a self-governing board appointed by the Mayor and the City-County Council.

IndyGo's service area includes all of Marion County, with a total population of 964,500.[5] It operates 31 fixed-bus routes and offers ADA paratransit services. In 2021, IndyGo began

[5] U.S. Census Bureau (2020). Total Population. *2015-2019 American Community Survey 5-Year Estimates (Table B01003)*. Retrieved from American Community Survey API.

operating the first of three bus rapid transit lines (the Red Line, with Purple and Blue Lines planned for future development).

In 2019, ridership totaled 9.29 million annually, averaging 770,000 trips a month. In 2020, ridership decreased, largely due to COVID-19, down to 4.78 million annually and an average of 470,000 trips a month. In 2021, the monthly average from January to July was 402,000 trips.

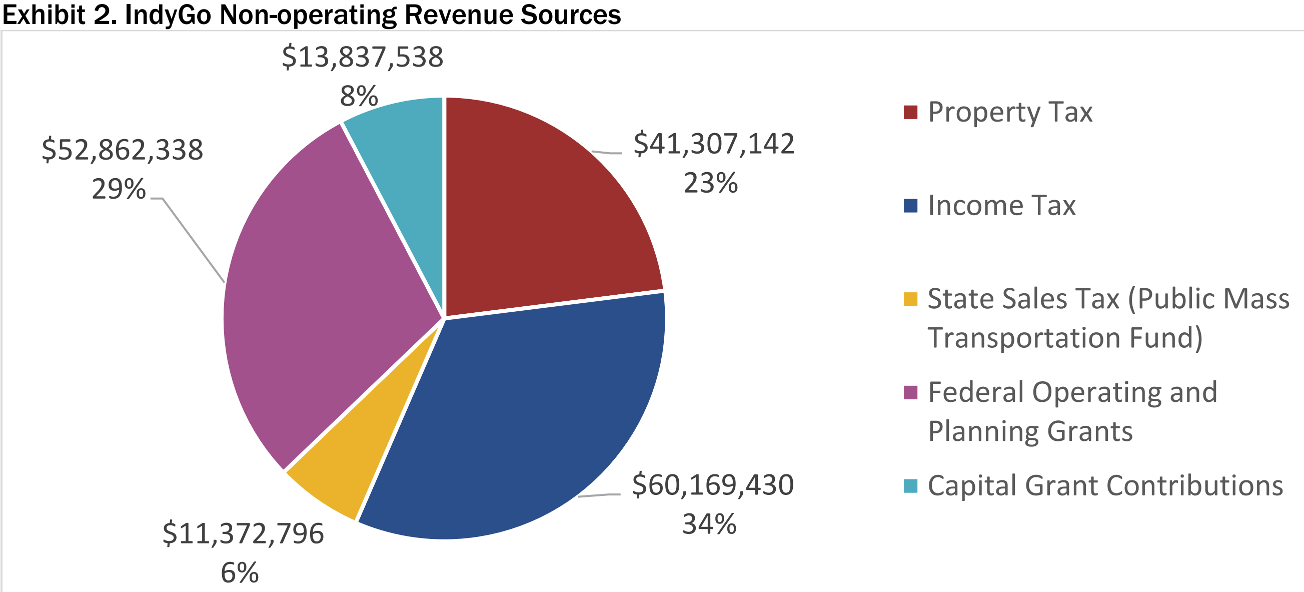
Revenues

In FY 2020, IndyGo had a total revenue of $186.4 million, 96 percent of which was derived from sources not directly related to the operation of transit services such as passenger fares and advertising

IndyGo's operating revenue of $6.6 million is $5.9 million in passenger fares and $565,000 from contracts with Reagan Outdoor Advertising from indoor and outdoor advertising on its fleet of buses and trains and stations.

IndyGo's non-operating revenue of $180 million includes an income tax (33 percent), a property tax (23 percent), federal and local operating and planning grants (29 percent), capital grant contributions (8 percent), and state sales tax revenue via the Public Mass Transportation Fund (6 percent). IndyGo's non-operating revenue breakdown is shown in Exhibit 2.

Exhibit 2. IndyGo Non-operating Revenue Sources



Source: Indianapolis-Marion County Department of Finance. (2021). Annual Comprehensive Financial Report 2020. Indianapolis Public Transportation Corporation. http://www.indygo.net/wp-content/uploads/2021/07/2020-IndyGo-ACFR.pdf

Local Income and Property Taxes. IndyGo's primary source of revenue is a 0.25 percent income tax levied at the county level. The measure was designed in 2016 to fund public transit projects. In 2020, income tax garnered $60 million. In addition, IndyGo receives revenue from Marion

County via a 0.042 percent special property tax levied since 2018. In 2020, the property tax generated $41 million.

State Sales Tax. IndyGo receives state sales tax revenue via from the Public Mass Transportation Fund (PMTF). This fund provides resources to all state public transit systems and funds are allocated based on performance. Note that this funding source is subject to change based on the state general fund and is not considered a dedicated source. PTMF allocated $11 million to IndyGo in 2020.

Federal Operating Grants. FTA operating, planning, and preventative maintenance grants make up $52.8 million. Ninety-one percent of federal funding is formula based (this includes COVID-19 stimulus funding) and the remaining 9 percent is competitive.

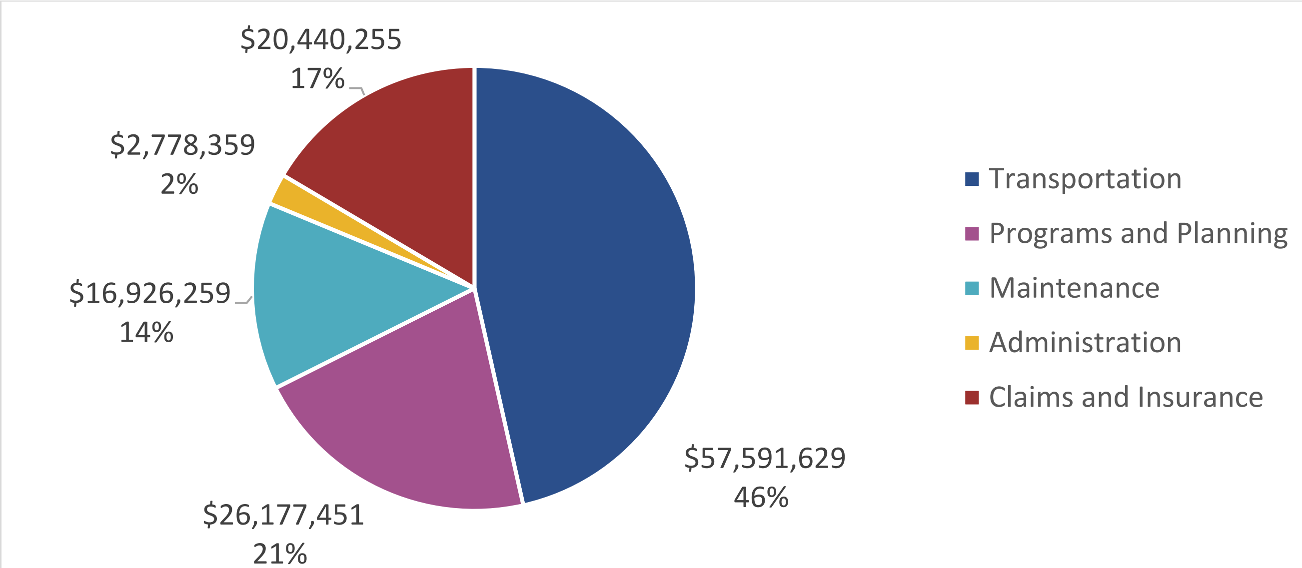
Federal Capital Grants. FTA capital contributions make up $13.8 million. These funds went towards the development of the Red Line.

Expenses

In FY 2020, IndyGo had a total expense of $125.3 million, nearly all of which were accrued as a result of transit operations, including labor, maintenance, administration, insurance claims, and fuel costs. The difference in revenue and expenses represented a change in the net position, as shown in their financial statements.

IndyGo's FY 2020 operating expenses totaled $123 million, 46 percent of which are from transportation operations (fuel expenses), 21 percent are from programs and planning, 17 percent are from claims and insurance, 14 percent are from maintenance, and the remaining two percent comes from general administrative costs (Exhibit 3).

Exhibit 3. IndyGo Operating Expense Sources



Source: Indianapolis-Marion County Department of Finance. (2021). Annual Comprehensive Financial Report 2020. Indianapolis Public Transportation Corporation. http://www.indygo.net/wp-content/uploads/2021/07/2020-IndyGo-ACFR.pdf

Non-operating expenses totaled $1.3 million, mostlyinterest expenses and the disposal of capital assets.[6]

Interview Summary

As an organization, IndyGo began with the consolidation of Indianapolis-Marion County in 1975. At that point the public transportation corporation was funded through a public mass transit fund and a property tax. During the 1990's, local authorities began developing Plan 2020, a plan to implement a long-term vision for the city, including improved transit. In 2010, the Indianapolis MPO, IndyGo, and the Central Indiana Regional Transportation Authority (CIRTA) created Indy Connect, a coordinated partnership for transit in Central Indiana. Indy Connect created a Transit Vision Plan, studied a range of rapid transit options, developed service enhancements to improve service speeds on existing lines and boost ridership, and secured federal funding to implement the region's first bus rapid transit line, connecting the region's north and south, with the Red Line opening in 2019, funded with an income tax passed in 2017.

Partnerships

IndyGo's partnerships were keys to the agency's success. Transit advocates secured new local funding incrementally, first through enabling legislation for a local option tax in 2014 and then for voter-approval of a local income tax increase to fund expanded transit service in 2016. The effort included broad-based support from a diverse set of unlikely partners, from the chamber

[6] The "other expenses" were not further explained by IndyGo's Annual Comprehensive Financial Report.

of commerce to the real estate community to the faith-based community. The final step was the city council vote in February 2017.

Working with transit advocacy organizations including Transportation4America and TransitCenter, community leaders emerged from the effort to participate in a "Transportation Innovation Academy" to guide the referendum campaign which had three key components:

1. An education campaign led by public agencies, including IndyGo, the transit agency;
2. A political campaign, named Transit Drives Indy, led by the Indy Chamber and the regional real estate brokers' association; and
3. A grassroots mobilization effort, led by the Indianapolis Congressional Action Network (IndyCAN).

Transit Drives Indy raised a reported $500,000 to fund polling, direct mail, social media advertising and other voter engagement efforts, reaching half a million voters through an estimated 1.7 million campaign-ad impressions. Transit Drives Indy continues and is activated when IndyGo starts a new project.

IndyCAN's "Ticket to Opportunity" campaign trained over 1,200 volunteers who made 165,000 calls to educate Indianapolis residents about the benefits of public transit. "This was more than just a vote about buses and trains," said Shoshanna Spector, executive director of IndyCAN. "It was a way to answer the question 'Do we as Hoosiers and residents of Indianapolis believe in investing in people and investing in our neighbors?' The overwhelming answer is that we do."

The resulting approval boosted IndyGo funding by $56 million annually (32 percent of the operating budget) through the 0.25 percent supplemental income tax. The new funding enabled more frequent buses on faster routes and the creation of three new bus rapid transit lines.

Advocacy Resources

With transit advocacy groups like Transportation4America and Transit Center, civic groups are organizing transit riders and building the support they need for improvements to transit systems such as dedicated bus lanes, funding to increase service, and fare discounts for low-income riders. These achievements are advancing the long-term goal of achieving broad-based access to fast, frequent, reliable, affordable transit. Documents such as Transit Center's "Winning Transit" report (available online at https://transitcenter.org/publication/winning-transit-2/) synthesizes those experiences into a guide for running successful transit campaigns.

IndyGo's Philanthropic Partner

The Indianapolis Public Transportation Foundation (IPTF) was established in February 2020 and is now governed by an 8-member Board of Directors. The stated mission of the Foundation is to help the community thrive by connecting people through accessible, equitable, and inclusive mobility solutions by enhancing services for those who rely on it and for those who choose it. Underlying this mission is the need to raise 10 percent of all operating costs through non-fare, non-tax sources, like state and federal grants as stipulated in the 2014 law that has helped fund recent IndyGo system expansions.

In March of 2020, the Central Indiana Community Foundation (CICF) made the first significant donation to the Indianapolis Public Transportation Foundation in the amount of $35,000. The Foundation has been building momentum and today its supporters include a wide range of corporate donors and sponsors, including:

- AARP Indiana
- Anthem, Inc.
- Central Indiana Regional Transportation Authority
- Fineline Printing Group
- Genetech
- Glick Philanthropies
- Indianapolis Airport Authority
- The Indianapolis Foundation, a CICF affiliate
- Indy Gateway, Inc.
- MIBOR REALTOR Association
- OneAmerica
- Plainfield Economic Investment District
- WSP Foundation

Other Findings

In the planning and development of its three BRT lines, IndyGo relied heavily on FTA grant funds. Eighty percent of Red Line funding, and an expected fifty percent each of Purple and Blue Line funding will come from the federal government. They also received money from the CARES Act. When they were low on funding, such as during the current COVID-19 pandemic, IndyGo strategized by backing off on their expansion plans or decreasing the frequency of transit service.

One place IndyGo staff feels they missed out on early in its strategic planning was developing corporate partnerships and sponsorships. They speculate that revenue from these areas could potentially have generated millions in additional revenue for IndyGo. Another reflection from

IndyGo was how much more powerful their legislative campaigns could have been had they formed a coalition with conservatives in the region.

IndyGo is looking towards the future with a focus on transit-oriented development. The agency is exploring the possibility of joint development on some of the properties it has acquired to capitalize on their value, possibly through the sale of development rights over transit stations, park-and-ride facilities, or other real estate assets that the agency might develop. These properties have been acquired using locally generated funds and a bond issuance. They are also interested in coordinating more closely with member jurisdictions, seeking ways to better leverage private development to support transit, such as through transit-supportive conditions of approval.

Case Study 2: Kansas City Streetcar

Background

Kansas City Streetcar ("the Streetcar") is a streetcar system operating in downtown Kansas City, Missouri. The Streetcar is operated by the nonprofit Kansas City Streetcar Authority (Streetcar Authority). Additional governance comes from the Kansas City Area Transportation Authority (KCATA), and the City of Kansas City, Missouri (the City).

The Streetcar was established in 2015 with a 2.2-mile "Downtown Starter" line. In 2021, construction began for an extension from Union Station to the University of Missouri - Kansas City, a process which is ongoing. It operates six vehicles and was designed to complement the existing Ride KC bus system which has a wider service area. The Streetcar is free to ride.

In 2019, ridership was 2.23 million annually and averaged 183,000 trips a month. In 2020, ridership decreased, largely due to COVID-19, down to 783,000 annually and averaged 64,000 trips a month. The August 2021 ridership was 106,000.

Revenues

In FY 2019, the Streetcar Authority had total revenues of $7.2 million, which are all non-operating costs as the Streetcar does not collect fares. Sixty percent of this comes from revenues collected in the Transit Development District surrounding the Streetcar. Twenty-eight percent, or $2.0 million, of this revenue is from an annual contribution from the City's public mass transit sales tax, and the remaining comes from other sources.

The Starter Line cost $102 million to design and construct, and was funded using money from Kansas City, MO, special obligation bonds, Transportation Development District (TDD) taxes, and federal grant money including a $20 million Federal Transportation Investment Generating Economic Recovery (TIGER) grant. These numbers are not included in the single-year analysis done below.

Transit Development District (TDD). The Transit Development District (TDD) was established to be the main funding source for the Streetcar. The TDD is a separate political entity which was approved by voters within its proposed boundary. It is governed by an Intergovernmental Cooperative Agreement between the Streetcar Authority, the City, and the TDD. It has the ability to impose certain taxes, special assessments, and fees, discussed below.

Special Assessment District. The TDD established a special assessment district aimed at funding the "design and construct" phase of Streetcar development. The assessment applies to real estate within the TDD boundary and has different rates for commercial, residential, City-owned, and exempted properties. In addition, commercial surface pay-parking lots pay a flat annual rate. The special assessment district has a thirty-year sunset. The TDD generated $4.3 million in FY 2019.

Sales Tax. The TDD established a localized one-percent sales tax on all taxable retail sales within its boundary.[7] The sales tax is aimed at funding operating costs and will continue indefinitely.

Local Funding. The Streetcar receives an annual contribution of $2.0 million from the City's public mass transit sales tax.

Federal Grants. Much of the Streetcar's development has been supported by federal funds. As noted earlier, the Streetcar was awarded a $20 million TIGER grant for the "design and construct" phase of Starter Line development in 2013 and an additional $17.1 million in federal funding not from TIGER. In 2021 it was awarded a $174 million grant towards its Main Street Extension.

Expenses

The Streetcar Authority's total expense in FY 2019 was $7.3 million, 94 percent of which are from programs and the streetcar expansion while 6 percent are administrative costs.

Interview Summary

The Kansas City Streetcar initiative began in the early 1990s but initially experienced several failed ballot measures for a streetcar system. Following a final failed attempt in 2008, transit proponents considered that the downtown core of Kansas City had always had strong support for a streetcar or rail system so therefore began to focus their efforts on a downtown starter line with localized funding. The measure passed in 2011 and has been expanding since.

The key to passing the initiative was a narrow geographic focus as well as strategies to build community trust. One of the three initial paid staff members was a marketing and communications coordinator, who was critical to getting community support as well as creating advertising and sponsorship opportunities. From the outset, the Streetcar was designed with a

[7] The sales tax does not apply to the following purchases: motor vehicles, trailers, boats or outboard motors, electricity or electrical current, water and gas, natural or artificial, and sales of service to telephone subscribers, either local or long distance.

focus on the experience of end users, including fareless riding to remove frictions during boarding and deboarding as well as a vehicle selected for its accessibility.

On the funding side, the Streetcar passed based on the tenet that the people who benefit from it would pay for it. This approach led to the formation of the Transit Development District (TDD), whose borders are generally within ten blocks of the starter line. There was also an emphasis on diversified funding. Revenue projections were kept conservative, and the expense side was kept steady and predictable. And importantly, TDD funding cannot be redirected to other functions, which allows the Streetcar to maintain a financial cushion.

Politically, the Streetcar Authority Board of Directors has a majority private-sector body to focus less on political changes and more on the businesses that operate in the district. With a steady start and continued support, the Streetcar is now expanding its service.

Case Study 3: Valley Metro

Background

Valley Metro Regional Public Transportation Authority (Valley Metro) is a regional transportation authority operating out of Maricopa County, Arizona. It is a membership organization comprised of eighteen municipal jurisdictions within the county. Some of the member cities and towns operate their own transit systems as well, but also belong to Valley Metro to coordinate and streamline services across the region.

Valley Metro is governed by a board with one member of the County Board of Supervisors and representatives from the member cities and towns. Further, operations and management are broken into two subagencies: RPTA and Valley Metro Rail. For this case study, we focused on RPTA since its existing operations are similar to VRT. We did not investigate Valley Metro Rail.

The agency's service area covers 513 square miles of the eighteen cities and towns within Maricopa County. Services include bus, light rail, and paratransit and commuter programs. A streetcar is projected to begin service in spring 2022.

In 2019, ridership was 64.3 million annually and averaged 5.3 million trips a month. In 2020, ridership decreased, largely due to COVID-19, down to 52.5 million annually and averaged 4.3 million trips a month. The September 2021 ridership was 2.4 million.

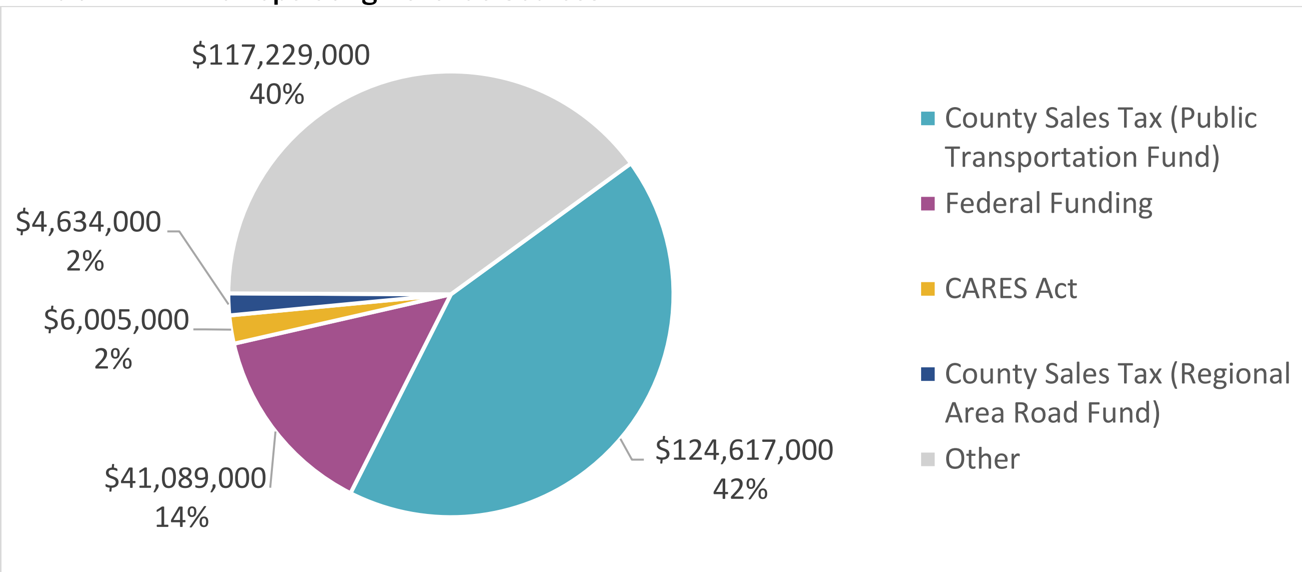
Revenue

In FY 2020, RPTA had a total revenue of $338.8 million, of which 22 percent were attributable to passenger fares and transit service reimbursements, with 78 percent from all other sources.

RPTA's total operating revenue of $50 million which includes passenger fare revenue of $8.4 million and transit service reimbursements (operating costs accrued by RPTA on behalf of their member cities which are then reimbursed by those member cities) of$42 million.

RPTA's non-operating revenue of $288 million includes local sales tax revenue via the Public Transportation Fund (42 percent), federal funding (14 percent), COVID-19 funding via the CARES Act (2 percent), and regional area road funds (2 percent). The remaining 40 percent is made up of state lottery fund disbursements, Maricopa Association of Governments funds, and funds that pass through to Valley Metro Rail (see Exhibit 4).

Exhibit 4. RPTA Non-operating Revenue Sources



Source: Valley Metro Finance Division. (2021). Comprehensive Annual Financial Report 2020. Valley Metro Regional Public Transportation Authority – Phoenix, AZ. https://drupal-space.nyc3.cdn.digitaloceanspaces.com/s3fs-public/uploads/event-resources/valley_metro_rpta_2020_comprehensive_annual_financial_report_0.pdf

County Sales Tax (Public Transportation Fund). RPTA's biggest revenue source comes from Maricopa County's Public Transportation Fund. These funds come from a 0.5 percent sales tax which was approved by county voters in 2004. Approximately one-third of the Public Transportation Fund is dedicated to transit and it us used for funding operations and capital needs. In FY 2021, RPTA received $125 million from the Public Transportation Fund.

County Sales Tax (Regional Area Road Funds). The remaining 67 percent of county sales tax revenue goes towards the Regional Area Road Fund. While most of this money is for highway and arterial street improvements, $4.6 million went to RPTA to be used for planning and administrative duties

Federal Funding. Forty million dollars came from federal funding (not including the CARES Act) in FY 2021. An additional $6 million came from the CARES Act's COVID-19 stimulus bill. In most years, RPTA only receives formula grant money and does not get competitive federal grant money.

Other.

State Lottery Fund Disbursements. The Arizona State Lottery allocated $611,000 to RPTA designated to support public transportation projects in Maricopa County and member cities. This is included in the "Other" category.

Maricopa Association of Governments Funds. This regional planning organization allocated $141,000 to RPTA. This is included in the "Other" category.

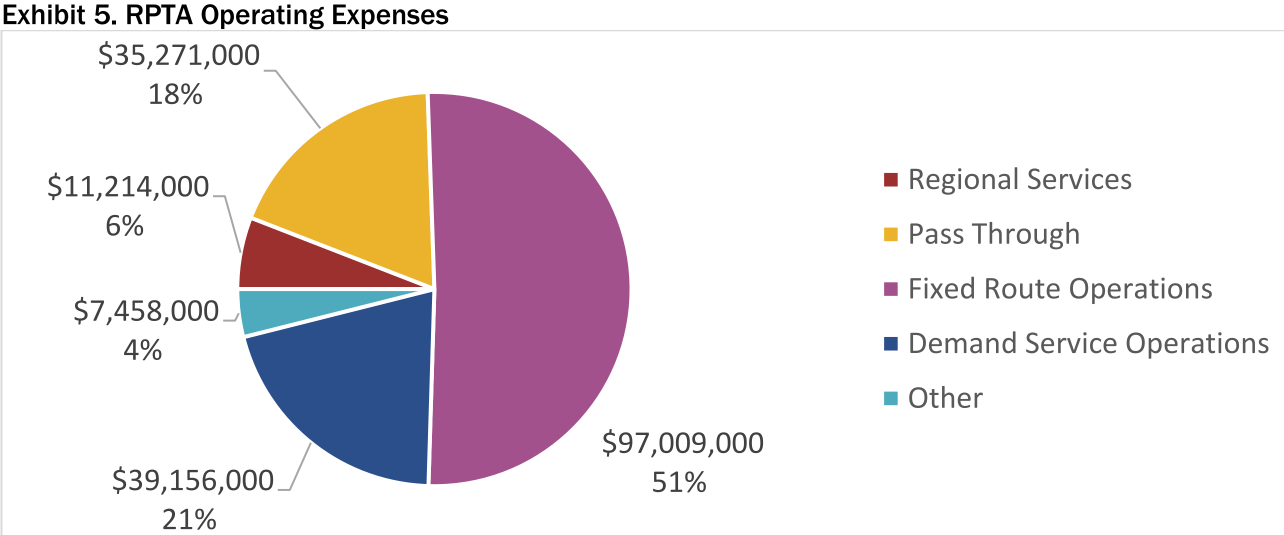
Pass-throughs. RPTA received money from several sources which are distributed to Valley Metro Rail. These include PTF funds, State Lottery disbursements, a fixed $500,000 in Regional Area Road Funds, and reimbursements to Valley Metro Rail.

Expenses

In FY 2020, RPTA had a total expense of $344 million, including operating expenses of 56 percent and non-operating of44 percent.

RPTA's operating expenses totaled $190 million, including fixed route operations (51 percent), demand service operations (21 percent), regional services (6 percent), and funds that pass through to other organizations including Valley Metro Rail for operating purposes (18 percent), shown in Exhibit 8. The remaining 4 percent go to programs and planning (2 percent), administration (2 percent), and vanpool operations (<1 percent).

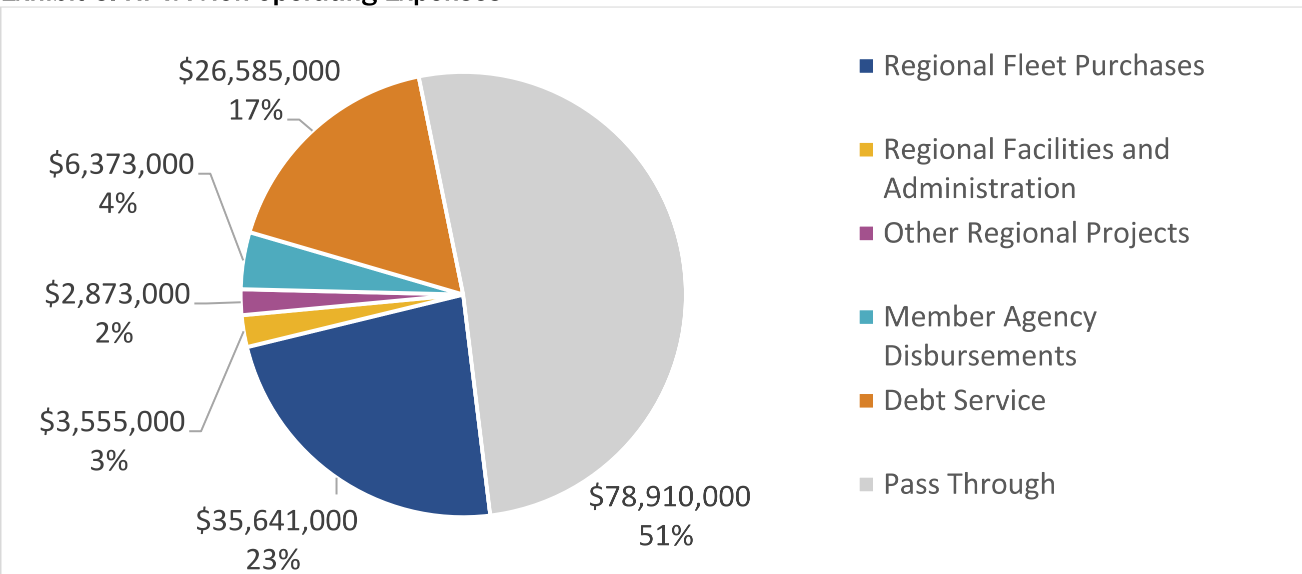
Exhibit 5. RPTA Operating Expenses



Source: Valley Metro Finance Division. (2021). FY22 RPTA Operating and Capital Budget. Valley Metro Regional Public Transportation Authority – Phoenix, AZ. https://drupal-space.nyc3.cdn.digitaloceanspaces.com/s3fs-public/uploads/event-resources/rpta_fy2022_adopted_operating_and_capital_budget.pdf

RPTA's non-operating expenses totaled $154 million, including regional fleet purchases (23 percent), debt service (17 percent), member agency disbursements (4 percent), regional facilities and administration funding (3 percent), and other regional projects (2 percent). The remaining 51 percent were funds passed through to other sources including RPTA Rail for capital funding.

Exhibit 6. RPTA Non-operating Expenses



Source: Valley Metro Finance Division. (2021). FY22 RPTA Operating and Capital Budget. Valley Metro Regional Public Transportation Authority – Phoenix, AZ. https://drupal-space.nyc3.cdn.digitaloceanspaces.com/s3fs-public/uploads/event-resources/rpta_fy2022_adopted_operating_and_capital_budget.pdf

Interview Summary

RPTA funding includes PTF funding and member city contributions. The Public Transportation Fund (PTF) measure was passed in 2004 as part of a larger ballot that included funding mainly for highways and arterials. Bundling transit with other transportation funding measures helped gain broader support. The metropolitan planning organization, Maricopa Association of Governments, spearheaded the proposition and helped strategize funding.

The legislatively permitted a half-cent sales tax for Maricopa County is half of other counties' one-cent sales tax. In addition, PTF funds may only be used for regional super grid routes, not circulator routes. To supplement these revenue restrictions, RPTA's RPTA uses member-city contributions which are individually negotiated contracts.

Where there are threats to revenue streams such as COVID-19 or a decrease in annual funding, the decentralized structure of RPTA allows them to negotiate directly with individual cities rather than the entire governing body. In addition, some of the member cities have their own transportation taxes which help supplement revenue.

While VRT's scale of operation and governing structure are different from RPTA, RPTA's experience with the PTF as well as their relationship with a regional planning organization are relevant to VRT. And RPTA's member-city structure is similar to VRT's relationship to its member cities.

Several of RPTA's member cities use their general fund for transit, while others have a dedicated transit fund that typically relies on a local tax.

Chandler has a population similar to that of Boise and its transportation plan is funded locally with general fund money. The city also collects $250,000 annually in bus stop advertising revenue. The city does not have local transit-specific taxes.[8]

Phoenix has a Transportation 2050 plan with its own local sales tax of 0.7 percent which funds a little more than half the program with86 percent of the sales tax revenue going towards Phoenix's public transit program.

Tempe has a Transit Tax that makes up 0.5 percent of the city's 1.8 percent sales tax and is the source of 81 percent of transit fund revenue. Tempe also receives maintenance and fuel reimbursements from regional partners as a result of its consolidation of operations with RPTA.

Scottsdale funds its fixed routes solely with the regional half-cent sales tax. Scottsdale also has a non-RPTA-affiliated bus service called the Trolley, which is funded with an additional 0.2 percent local transportation sales tax.

[8] Cite transportation master plan page 98

Comparison to VRT

Exhibit 7. Comparison Matrix[9]

	VRT	IndyGo	KC Streetcar	Valley Metro
Service Area	Ada and Canyon County, ID	Marion County, IN	Downtown Kansas City, MO	Maricopa County, AZ
Local population	737,790	964,500	486,404	4,420,568
Operating Structure	Bus; Vanpool	Bus (including bus rapid transit lines)	Streetcar	Regional Public Transportation Authority (bus, vanpool) and Valley Metro Rail
Governing Structure	Executive Board Board of Directors; Regional Advisory Council	Executive Team; Board of Directors; Transit Drives Indy (advocacy organization)	City of Kansas City Transit Development District; Kansas City Streetcar Authority	Executive Leadership; Board of Directors
Farebox Recovery Rate		Average across all routes: 16 percent	N/A – does not collect fares	System total: 13.8 percent Bus: 15.4 percent
Funding Sources	Advertising Non-transportation Funds (natural gas rebate); Passenger Fares; Federal Funding; Member City Contributions	Property Tax; Income Tax; State Sales Tax; Federal Funding; Passenger Fares; Advertising	Property Tax; Sales Tax; City Contribution Contracts	County Sales Tax; Regional Area Road Funds; Federal Funding; Passenger Fares; Member City reimbursements
Key lessons learned		Cultivate advocacy and philanthropic partners. Transit Drives Indy and IndyCAN were critical to winning political support	Partner with business community, narrow the focus for strong support, notch easy wins to build momentum	Link transit funding with other transp. funding to gain broad support. Successful legislation linked one-third transit funding with two-thirds highways and arterials

[9] Note: VRT data is from 2019 (farebox recovery from 2013), IndyGo data is from 2020, KC Streetcar data is from 2019, and Valley Metro Data is from 2020 (farebox recovery from 2017).

Lessons Learned

Key lessons from the case studies include the following:

Transit Agencies Need Partners and Advocates. VRT should consider engaging or creating an advocacy arm to liaise with the public, educate voters on issues, and campaign to get measures on the ballot and passed. All three interviewed agencies had organizations or dedicated community members that could advocate on their behalf.

Build Community Trust. VRT needs to keep the focus on the end user and engage community organizers in addition to planners. They should also eliminate frictions to getting riders into the system. Strategies include no-fare zones where warranted and conservative, rather than aspirational, projections.

Consider Equity. The costs of the system should be borne by those who benefit from transit investments. This involves considering the identities of the riders as well as nearby businesses and community partners.

Maximize Support – Private or Public. The agencies we interviewed all operated in areas with diverse politics and had to work strategically with broad-based coalitions of community partners to successfully pass initiatives. This meant working with people representing both conservative and more progressive factions to show broad support and avoid politics. VRT should also leverage any other transit partners in the area and consider formation of a dedicated philanthropic foundation to leverage charitable organizations as well as corporate and community sponsors.

Appendix C: Revenue Tool Analysis

Valley Regional Transit is considering instruments (revenue tools) to pay for future transportation investments. This summary, a compilation of research by ECONorthwest, presents a purely technical review of the tools identified below. It includes an initial assessment of near-term revenue potential. The tools under consideration include:

- Property Tax
- Payroll Tax
- General Sales Tax
- Special Assessment District Property Tax
- Joint Development Opportunities

This analysis explores the following key questions:

1. What rate(s) are required to raise $13.3 million and $51.3 million in annual operating and capital costs associated with expanded service under ValleyConnect 2.0?
    a. Note: These totals represent the combined total of annual operating costs plus annualized capital costs (assuming a 20-year bond issued at 4 percent interest with a 1.25 debt-service coverage ratio) for the two scenarios.
2. What are the important considerations associated with collection costs or logistical barriers to collection (e.g., constitutional, or statutory limitations, need for IGAs with other entities, etc.) for each instrument?
3. What are the known, obvious legal issues associated with each instrument?

<table>
<tr><th rowspan="2">Ref</th><th rowspan="2">Funding Tool and Description</th><th rowspan="2">Rates required</th><th colspan="4">Considerations</th></tr>
<tr><th>Legal</th><th>Logistical</th><th>Economic</th><th>Equity</th></tr>
<tr>
<td>1</td>
<td>Property Tax
A tax levied on the assessed value of property and improvements.

In this section, a “flat” property tax levy of the two-county VRT region is modelled.</td>
<td>Expected rate per $1,000 taxable assessed value, combined Ada & Canyon counties.

<table>
<tr><th>Year</th><th>Rate</th></tr>
<tr><td colspan="2">$13.3m Target</td></tr>
<tr><td>2021</td><td>$0.184</td></tr>
<tr><td>2022</td><td>$0.166</td></tr>
<tr><td>2023</td><td>$0.149</td></tr>
<tr><td>2024</td><td>$0.134</td></tr>
<tr><td>2025</td><td>$0.121</td></tr>
<tr><td colspan="2">$51.3m Target</td></tr>
<tr><td>2021</td><td>$0.708</td></tr>
<tr><td>2022</td><td>$0.638</td></tr>
<tr><td>2023</td><td>$0.574</td></tr>
<tr><td>2024</td><td>$0.517</td></tr>
<tr><td>2025</td><td>$0.465</td></tr>
</table>

Assumptions
Assumes that assessed property values will increase at 11 percent per year for the next five years. This would be the average percent growth of assessed real property in the combined county area over the last five years.

Summary
When combined with Ada County’s existing direct property tax levy, to meet VRT’s revenue targets, the average rate in 2020 in Ada County would have totaled $8.85 for the limited scenario, or $9.24 for the growth scenario. A mill rate of $0.54 would be roughly equivalent to the average of Ada County’s library districts tax rates. In 2020, the average city direct mill rate in Ada County was $2.72.</td>
<td>Note: Implementing this revenue tool would require legislative action in order to allow for its use by VRT. Jurisdictions in Idaho are permitted to levy local property taxes under a specific set of taxing districts that must adhere to certain statures regarding their use, formation, and authority.

Currently, there are no taxing districts specifically geared towards taxing for the specific purpose of constructing/operating public transportation services. However, a “community infrastructure district” (CID) might be a basis on which to argue for VRT’s taxing authority. Under Idaho law, a CID can be formed A community infrastructure district may only be formed “by a city in the city’s incorporated area, or by a county in an area contained within a city’s comprehensive plan with the city’s consent … To encourage the funding and construction of regional community infrastructure in advance of actual developmental growth that creates the need for such additional infrastructure.”

Further legal research would be required to test the true viability of VRT using a CID designation to levy taxes.</td>
<td>Administrative Ease: Collection mechanisms are already in place for property taxes, so administrative burden is relatively low.

Uses of Funds: Local option levies may be used for capital costs or operations and maintenance costs, assuming

Public Vote: Forming a new taxing district typically requires passing a vote with a 2/3rd majority.

Intergovernmental Agreement: Not required.</td>
<td>Potential market distortions are lower to the extent that taxed properties experience tax compression (not relevant for general obligation bonds).

Avoidance: Property taxes are difficult to avoid and easy to enforce, making the tax relatively efficient. Although, at the margins, increases affect the feasibility of development and increase the desirability of development in areas with lower property tax.

Volatility: Property taxes are among the most stable funding sources available. Property tax revenue in Idaho is somewhat more volatile than in some other states since there are no caps on the amount that any given property can increase – causing increased friction with taxpayers if they do not see a connection to transit service.</td>
<td>Property tax increases may or may not have a direct connection to transportation system users, depending on how the funds are used.

Property taxes are technically regressive because households are taxed at the same rate (and pay the same amount of tax on similar valued homes), regardless of their incomes. In practice, property taxes are based on Taxable Assessed Value (AV), and higher-income earners typically, but not always, live in higher-valued homes. At present, there is no clear consensus on whether the tax is progressive, regressive, or proportional.

HB 389 will have a limiting effect on the annual growth rate of property tax revenues, requiring rates to be adjusted and new property values to be forgone.</td>
</tr>
</table>

Property Tax, cont'd

Alternative scenarios to the region-wide flat property tax levy include: **1.)** a "scaled direct levy" scenario in which VRT uses its hypothetical taxing authority to establish tax districts through which it levies taxes directly from property owners, with rates based on expected level of service delivered to each jurisdiction; and **2.)** a "scaled budget line-item" scenario in which VRT enters into a long term agreement with partner jurisdictions to receive stable portions of jurisdictional property tax revenues to be passed through to VRT on an annual basis.

Assumptions

When annualizing capital costs, we make the conservative assumption that the entire amount will be bonded. This assumes 4 percent interest on a 20-year bond, and a 1.25 debt-service coverage ratio necessary to receive the loan. Jurisdiction-level Canyon County assessed value data is limited to 2021 and is limited in detail. We assume an overall taxable assessed value and an average annual growth rate for all jurisdictions in the county equal to the countywide rates.

1. Service-scaled direct levy option – Rate per $1,000 of projected assessed value required

Limited Scenario - $13.3M Target						Annual revenue generated
Jurisdiction	**2021**	**2022**	**2023**	**2024**	**2025**	
Ada County	0.002	0.002	0.001	0.001	0.001	$146,063
Canyon County	0.007	0.006	0.006	0.005	0.005	$146,063
City of Boise	0.320	0.287	0.258	0.231	0.207	$11,685,013
City of Eagle	0.004	0.003	0.003	0.003	0.002	$29,213
City of Garden City	0.149	0.135	0.122	0.111	0.100	$292,125
City of Kuna	0.063	0.051	0.041	0.033	0.027	$146,063
City of Meridian	0.013	0.012	0.010	0.009	0.007	$233,700
City of Star	0.016	0.013	0.011	0.008	0.007	$29,213
City of Caldwell	0.035	0.031	0.028	0.025	0.023	$146,063
City of Nampa	0.051	0.046	0.042	0.037	0.034	$438,188
City of Middleton	0.009	0.008	0.007	0.007	0.006	$7,303
City of Notus	0.229	0.206	0.186	0.167	0.151	$7,303
City of Parma	0.052	0.047	0.042	0.038	0.034	$7,303
City of Wilder	0.094	0.085	0.076	0.069	0.062	$7,303
City of Greenleaf	0.126	0.113	0.102	0.092	0.083	$7,303
City of Melba	0.137	0.123	0.111	0.100	0.090	$7,303

Growth Scenario - $51.3M Target						Annual revenue generated
Jurisdiction	**2021**	**2022**	**2023**	**2024**	**2025**	
Ada County	0.007	0.006	0.006	0.005	0.004	$562,411
Canyon County	0.027	0.025	0.022	0.020	0.018	$562,411
City of Boise	1.233	1.106	0.992	0.889	0.797	$44,992,906
City of Eagle	0.015	0.013	0.011	0.010	0.009	$112,482
City of Garden City	0.574	0.520	0.470	0.426	0.385	$1,124,823
City of Kuna	0.241	0.195	0.158	0.128	0.103	$562,411
City of Meridian	0.051	0.045	0.038	0.033	0.029	$899,858
City of Star	0.063	0.050	0.041	0.033	0.026	$112,482
City of Caldwell	0.134	0.120	0.108	0.098	0.088	$562,411
City of Nampa	0.197	0.178	0.160	0.144	0.130	$1,687,234
City of Middleton	0.035	0.032	0.029	0.026	0.023	$28,121
City of Notus	0.882	0.794	0.715	0.644	0.580	$28,121
City of Parma	0.200	0.180	0.162	0.146	0.131	$28,121
City of Wilder	0.362	0.326	0.293	0.264	0.238	$28,121
City of Greenleaf	0.485	0.437	0.393	0.354	0.319	$28,121
City of Melba	0.526	0.473	0.426	0.384	0.346	$28,121

2. Service-scaled budget line-item option - Percent of projected property tax revenue required

Limited Scenario - $13.3M Target						Annual revenue generated
Jurisdiction	**2021**	**2022**	**2023**	**2024**	**2025**	
Ada County	0.1%	0.1%	0.1%	0.1%	0.1%	$146,063
Canyon County	0.3%	0.2%	0.2%	0.2%	0.2%	$146,063
City of Boise	8.4%	8.1%	7.8%	7.5%	7.2%	$11,685,013
City of Eagle	0.7%	0.7%	0.6%	0.6%	0.6%	$29,213
City of Garden City	9.2%	8.9%	8.6%	8.3%	8.0%	$292,125
City of Kuna	3.5%	3.2%	2.8%	2.5%	2.3%	$146,063
City of Meridian	0.7%	0.7%	0.6%	0.6%	0.6%	$233,700
City of Star	1.8%	1.6%	1.5%	1.4%	1.3%	$29,213
City of Caldwell	0.7%	0.7%	0.7%	0.7%	0.6%	$146,063
City of Nampa	1.1%	1.1%	1.0%	1.0%	1.0%	$438,188
City of Middleton	0.3%	0.2%	0.2%	0.2%	0.2%	$7,303
City of Notus	8.0%	7.8%	7.5%	7.3%	7.1%	$7,303
City of Parma	1.4%	1.3%	1.3%	1.3%	1.2%	$7,303
City of Wilder	2.0%	1.9%	1.8%	1.7%	1.6%	$7,303
City of Greenleaf	8.5%	8.2%	8.0%	7.8%	7.5%	$7,303
City of Melba	7.2%	7.0%	6.7%	6.5%	6.2%	$7,303

Growth Scenario - $51.3M Target						Annual revenue generated
Jurisdiction	**2021**	**2022**	**2023**	**2024**	**2025**	
Ada County	0.4%	0.4%	0.4%	0.3%	0.3%	$562,411
Canyon County	1.0%	0.9%	0.9%	0.8%	0.8%	$562,411
City of Boise	32.5%	31.2%	30.1%	28.9%	27.9%	$44,992,906
City of Eagle	2.6%	2.5%	2.4%	2.3%	2.1%	$112,482
City of Garden City	35.5%	34.3%	33.1%	31.9%	30.8%	$1,124,823
City of Kuna	13.6%	12.2%	10.9%	9.7%	8.7%	$562,411
City of Meridian	2.8%	2.6%	2.4%	2.3%	2.1%	$899,858
City of Star	6.9%	6.3%	5.8%	5.4%	5.0%	$112,482
City of Caldwell	2.8%	2.7%	2.6%	2.5%	2.4%	$562,411
City of Nampa	4.3%	4.1%	4.0%	3.8%	3.7%	$1,687,234
City of Middleton	1.0%	0.9%	0.8%	0.7%	0.6%	$28,121
City of Notus	30.7%	29.8%	29.0%	28.2%	27.4%	$28,121
City of Parma	5.3%	5.2%	5.0%	4.9%	4.8%	$28,121
City of Wilder	7.6%	7.3%	6.9%	6.6%	6.3%	$28,121
City of Greenleaf	32.6%	31.7%	30.8%	29.9%	29.0%	$28,121
City of Melba	27.9%	26.8%	25.8%	24.8%	23.9%	$28,121

<table>
<tr><th rowspan="2">Ref</th><th rowspan="2">Funding Tool and Description</th><th rowspan="2">Rates required</th><th colspan="4">Considerations</th></tr>
<tr><th>Legal</th><th>Logistical</th><th>Economic</th><th>Equity</th></tr>
<tr>
<td>2</td>
<td>Special Assessment District
A tax levied on the assessed value of property and improvements within the boundaries of a business improvement district or special assessment district.

Within community infrastructure districts, the purpose of this funding tool is to leverage revenue from the district and use these funds to service debt from general obligation bonds spent on infrastructure improvements within the district.</td>
<td>Expected rate per $1,000 taxable assessed value
<table>
<tr><th>Year</th><th>Rate</th></tr>
<tr><td colspan="2">$14.0m Bond (50 percent Limited Capital)</td></tr>
<tr><td>2021</td><td>$0.74</td></tr>
<tr><td>2022</td><td>$0.66</td></tr>
<tr><td>2023</td><td>$0.60</td></tr>
<tr><td>2024</td><td>$0.54</td></tr>
<tr><td>2025</td><td>$0.48</td></tr>
<tr><td colspan="2">$48.3m Bond (50 percent Growth Capital)</td></tr>
<tr><td>2021</td><td>$2.53</td></tr>
<tr><td>2022</td><td>$2.28</td></tr>
<tr><td>2023</td><td>$2.05</td></tr>
<tr><td>2024</td><td>$1.85</td></tr>
<tr><td>2025</td><td>$1.66</td></tr>
</table>
Assumptions
Assumes a subset of 313 parcels within a 1/8th mile radius of all route #9 stations (see Addendum section), limited to just commercial use & commercially-zoned properties. Assumes property values increase annually at 11 percent. Assumes 4 percent interest on a 20-year bond, and a 1.25 debt-service coverage ratio

Summary
The addition of these special assessments would likely raise property taxes within the corridor a significant amount under the growth scenario, but the tool could prove more feasible than region-wide property taxes. By comparison, a $2.53 mill rate would be nearly equivalent to Ada County's direct mill rate of $2.55.</td>
<td>Note: Implementing this revenue tool would require legislative action in order to allow for its use by VRT. Pursuant to Idaho law, special assessment districts (SADs) must garner the approval of 2/3rd of the property owners within the district prior to formation.

In contrast, business improvement districts need only a petition with signatures of 50 percent of the proposed members of the district. Following this petition, the local governing body (e.g. city) would convene a hearing do either approve or deny the petition.

Multi-jurisdiction CIDs may be possible under Idaho law if they are formed by the governing county with the consent of the relevant city governments, thereby reducing more complex intergovernmental arrangements if districts were formed and "combined" individually outside of county involvement. Further legal research into this scenario should be explored outside of this study.

Other Rules Governing SADs
The aggregate fair market value of real property, plus the aggregate value of any infrastructure to be added to the SAD through bonds, must be three times the amount of any bonds issued for constructing said infrastructure.

Special assessments on privately-owned residential property cannot be increased more than 2 percent per year, up to a maximum of 10 percent over the lifespan of the district.

Personal property cannot be subject to special assessments.

Bonds used for building infrastructure within the SAD must be expended within three (3) years following their issuance.</td>
<td>Administrative Ease: Collection mechanisms are already in place for property taxes, so administrative burden is relatively low.

Uses of Funds: Contingent on the funding tool. General obligation bonds are restricted to capital costs. Local option levies may be used for capital costs or operations and maintenance costs. Both tools require that funds be spent on predetermined purposes.

Public Vote: Required by 2/3rd majority of parcel owners within proposed district.

Intergovernmental Agreement: Not required.</td>
<td>Potential market distortions are lower to the extent that taxed properties experience tax compression (not relevant for general obligation bonds).

Avoidance: Property taxes are difficult to avoid and easy to enforce, making the tax relatively efficient. Although, at the margins, increases affect the feasibility of development and increase the desirability of development in areas with lower property tax.

Volatility: Property taxes are among the most stable funding sources available. Property tax revenue in Idaho is somewhat more volatile than in some other states since there are no caps on the amount that any given property can increase – causing increased friction with taxpayers if they do not see a connection to transit service.</td>
<td>Special assessment taxes are seen as more equitable than basic property taxes Property tax increases may or may not have a direct connection to transportation system users, depending on how the funds are used.

Property taxes are technically regressive because households are taxed at the same rate (and pay the same amount of tax on similar valued homes), regardless of their incomes. In practice, property taxes are based on Taxable Assessed Value (AV), and higher-income earners typically, but not always, live in higher-valued homes. At present, there is no clear consensus on whether the tax is progressive, regressive, or proportional.

HB 389 will have a limiting effect on the annual growth rate of property tax revenues, requiring rates to be adjusted and new property values to be forgone.</td>
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<tr><th rowspan="2">Ref</th><th rowspan="2">Funding Tool and Description</th><th rowspan="2">Rates required</th><th colspan="4">Considerations</th></tr>
<tr><th>Legal</th><th>Logistical</th><th>Economic</th><th>Equity</th></tr>
<tr>
<td>3</td>
<td>Joint Development/Public Property Lease and Disposition
Joint development is the simultaneous improvement of public infrastructure such as a transit system and the surrounding real estate coordinated between the public agency and real estate developers. It is a form of value capture, leveraging private resources to fund public projects.

A lease of publicly owned lands could fund (a small portion of) VRT operations over the long term, while the sale/disposition of lands could be used as a one-time revenue tool to fund capital improvements.

This process can increase land values as underutilized properties are redeveloped, thus stimulating local real estate markets.</td>
<td>Expected lease value per sq. ft. of building space, and expected sale value per sq. ft. of public lands in transit corridors

<table>
<tr><th>Year</th><th>Gross Rent Per Bldg. Sq. Ft. (Office & Service)</th></tr>
<tr><td>2021</td><td>$19.87</td></tr>
<tr><td>2022</td><td>$20.68</td></tr>
<tr><td>2023</td><td>$21.53</td></tr>
<tr><td>2024</td><td>$22.41</td></tr>
<tr><td>2025</td><td>$23.33</td></tr>
</table>

<table>
<tr><th>Year</th><th>Assessed Value Per Sq. Ft.</th></tr>
<tr><td>2021</td><td>$19.12</td></tr>
<tr><td>2022</td><td>$21.23</td></tr>
<tr><td>2023</td><td>$23.58</td></tr>
<tr><td>2024</td><td>$26.19</td></tr>
</table>

Assumptions
Assumes total redevelopment of sites, meaning properties would have to be sold at their assessed land value to account for demolition of existing improvements.

Summary
There are an estimated 1,569 publicly-owned parcels (both vacant and developed) within ¼ mile of VRT stations, with a median size of 0.42 acres. To generate $13.3m of annual revenue, VRT would have to acquire, develop, and lease about 8 acres of land, assuming a resulting 2.0 floor-area-ratio (FAR) of all developed parcels and receiving at-or-above market rents at all sites. To generate a one-time revenue of $13.3m via land disposition, VRT would need to acquire and sell about 16 acres to potential developers.</td>
<td>Local jurisdictions in Idaho are permitted to “exchange or convey, by good and sufficient deed or other appropriate instrument in writing, any real property owned by the city which is underutilized or which is not used for public purposes.”

Jurisdictions are required to declare the sale price of any property in question and must sell to the highest bidder and cannot sell the property below that declared value without restarting the process over again.

Properties can be conveyed to developers under a contract, but the terms of that contract cannot last longer than 10 years.

The FTA stipulates two ways a transit agency may satisfy the requirements for using grant money to acquire and joint-develop property:

(1) “By enhancing the effectiveness of public transportation as well as being physically or functionally related to public transportation, or
(2) by establishing new or enhanced coordination between public transportation and other transportation”

The first option above includes transit-oriented development of properties that demonstrate a likely increase to ridership (i.e. apartments with no on-site parking near a station), while the second could include uses such as park-and-rides or possibly bike-share stations.</td>
<td>Administrative Ease: Joint developments can be time consuming and require attention from staff in different positions due to the complexity of the agreement and because many different actors are involved. However, this depends on the agreement, as some joint development projects could be straightforward and easy to administer once the lease/sale is in place.

Typically, agencies involved in significant amounts of joint development must form internal real estate divisions to manage the leases and agreements, adding to overhead. However, lease management is also often contracted to outside vendors, possibly saving on costs if the arrangements and portfolios are relatively minimal.

Uses of Funds: Jurisdictions are permitted to treat funds garnered from public land sales/leases the same as they treat general revenues.

Public Vote: Not required, but a public hearing is mandated prior to the sale. Thirty-year leases must be sold to the highest bidder at auction. It is unclear if this precludes development agreements or not.

Intergovernmental Agreement: Not legally required but may be advisable given that VRT will need to partner with jurisdictions due to its own relatively small real estate portfolio. Jurisdictions will likely be wary, given the unclear return they get for transferring property to VRT.</td>
<td>Avoidance: Not applicable.

Volatility: The stability of the agreement will depend on the rapport between the public agencies and the private partners.</td>
<td>Public land disposition will likely garner support as it utilizes private dollars instead of public dollars. It adds to the taxable base of the area and can be used to meet equity goals.</td>
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<tr>
<td>4</td>
<td><h3>Payroll Tax</h3>A payroll tax is a tax on wages and salaries paid by employers or by employees as a payroll deduction. A payroll tax generates revenue from people who work inside an area, even if they live outside of the area in which the tax is applied.

Employers, including those out-of-state, are required to pay a payroll tax on employees who work in the area, including telecommuters.</td>
<td>Expected regional payroll tax rate
<table><tr><th>Year</th><th>Rate</th></tr><tr><td colspan="2">$13.3m Target</td></tr><tr><td>2020</td><td>0.075%</td></tr><tr><td>2021</td><td>0.067%</td></tr><tr><td>2022</td><td>0.062%</td></tr><tr><td>2023</td><td>0.058%</td></tr><tr><td>2024</td><td>0.054%</td></tr><tr><td colspan="2">$51.3 Target</td></tr><tr><td>2020</td><td>0.29%</td></tr><tr><td>2021</td><td>0.26%</td></tr><tr><td>2022</td><td>0.24%</td></tr><tr><td>2023</td><td>0.22%</td></tr><tr><td>2024</td><td>0.21%</td></tr></table>
Assumptions
Assumes that Ada & Canyon counties represented a combined 45.3 percent of the state's wages & salaries In 2020 (Source: QCEW), and that this share will grow at 1.01 percent (Source: QCEW) per year for the next five years. Assumes that self-employed pay equal 5 percent of non-self-employed wages & salaries. Assumes Idaho Economic Forecasts for statewide wages & salaries (end year 2024).

Summary
A payroll tax could increase existing costs to employers/employees a significant amount, depending on the scale and location of businesses. Further investigation into wages paid by different types of businesses could be made. By comparison, Idaho's current income tax ranges between 1 percent and 6.5 percent, and the current national Medicare payroll tax rate is 6.2 percent for employers.</td>
<td>Note: Implementing this revenue tool would require legislative action in order to allow for its use by VRT. Idaho currently collects a state income tax that ranges in brackets between 1 percent to 6.5 percent. The Idaho Tax Commission disburses funds from this tax based on its own internal formula. However, it is more likely this tax would be a flat rate added onto existing payroll taxes.

It is unclear at this time if Idaho laws even permit local jurisdictions or agencies to levy their own payroll tax. More likely is that the Idaho Tax Commission could raise income taxes by a flat rate (previously listed) applied to all income tiers, with the subsequent revenues to be disbursed to VRT.</td>
<td>Administrative Ease: Depending on how the tax is implemented, administration costs could be fairly low as employers are required to withhold and report payroll tax.

Uses of Funds: No restrictions on the use of funds were identified. If VRT is legally allowed to impose a payroll tax, additional legal review may be needed to determine the full extent of how funds may be used.

Public Vote: Likely required – legal review needed.

Intergovernmental Agreement: Legal review needed.</td>
<td>Because payroll taxes are broad-based, low tax rates (<1 percent) have potential to generate substantial levels of revenue.

Avoidance: Though illegal, cash income can be underreported, reducing an individual's tax liability. For example, the IRS estimated that 10 percent of 2006 tips by employees went unreported.[i]

Volatility: Though dependent upon larger economic trends, payroll taxes are relatively stable.</td>
<td>Payroll tax progressivity can be increased by exempting wages below a certain threshold or imposing a tiered rate structure.

In addition, the statutory incidence of the tax (i.e., whether the employer or the employee is responsible for payment) could affect the economic burden on an individual, at least in the short run.</td>
</tr>
</table>

<table>
<thead>
<tr><th rowspan="2">Ref</th><th rowspan="2">Funding Tool and Description</th><th rowspan="2">Rates required</th><th colspan="4">Considerations</th></tr>
<tr><th>Legal</th><th>Logistical</th><th>Economic</th><th>Equity</th></tr>
</thead>
<tbody>
<tr>
<td>5</td>
<td>General Sales Tax
A general sales tax is a consumption tax on the sale of all goods and services.

The tax is usually levied at the time of transaction and collected by the seller who passes it on to the government.</td>
<td>Expected regional sales tax rate
<table>
<tr><th>Year</th><th>Rate</th></tr>
<tr><td colspan="2">$13.3m Target</td></tr>
<tr><td>2021</td><td>0.065%</td></tr>
<tr><td>2022</td><td>0.060%</td></tr>
<tr><td>2023</td><td>0.054%</td></tr>
<tr><td>2024</td><td>0.050%</td></tr>
<tr><td>2025</td><td>0.046%</td></tr>
<tr><td colspan="2">$51.3m Target</td></tr>
<tr><td>2021</td><td>0.241%</td></tr>
<tr><td>2022</td><td>0.228%</td></tr>
<tr><td>2023</td><td>0.209%</td></tr>
<tr><td>2024</td><td>0.192%</td></tr>
<tr><td>2025</td><td>0.176%</td></tr>
</table>
Assumptions
Assumes that sales tax revenues will grow by 8.0 percent annually for the next five years. Assumes a 18.89 percent taxable share of sales (the percent of sales that would subject to taxes) statewide, and that Ada & Canyon counties constituted 55.3 percent of statewide sales receipts, which will grow at 1.01 percent per year (e.g. as the region grows faster than the state as a whole, it will constitute an larger share of the state's revenue.

Summary
There's no clear legal path forward with a sales tax option. Were this to pass at the two-county level, it would be significantly lower than some resort town local option tax increases. By comparison, Idaho's current statewide sales tax rate is 6 percent, and the resort town of Sun Valley levies an additional 3 percent local option sales tax (currently the highest local option rate).</td>
<td>Note: Implementing this revenue tool would require legislative action in order to allow for its use by VRT. Outside of resort cities with populations under 10,000, jurisdictions cannot levy local option sales taxes in Idaho.

Any local option sales tax to fund VRT operations would require the state legislature to allow local jurisdictions to establish local sales tax districts, possibly by a two-thirds majority.

Historically, local options tied to specific and limited infrastructure improvements have been approved by voters, but usually balanced by some decrease in property tax burdens.</td>
<td>Administrative Ease: A general sales tax would require new staff to oversee implementation and administration (monthly reporting, enforcement, etc.). Businesses that collect sales tax would also need to adjust their accounting procedures.

Uses of Funds: No restrictions

Public Vote: Required. Additional taxes are unpopular in Idaho and numerous proposals to levy additional local option sales taxes have been defeated by wide margins.

Intergovernmental Agreement: Unclear, possibly not required; an agreement could be considered to outline revenue sharing if being established by another jurisdiction.</td>
<td>The broad array of goods and services taxed would easily generate substantial revenue.

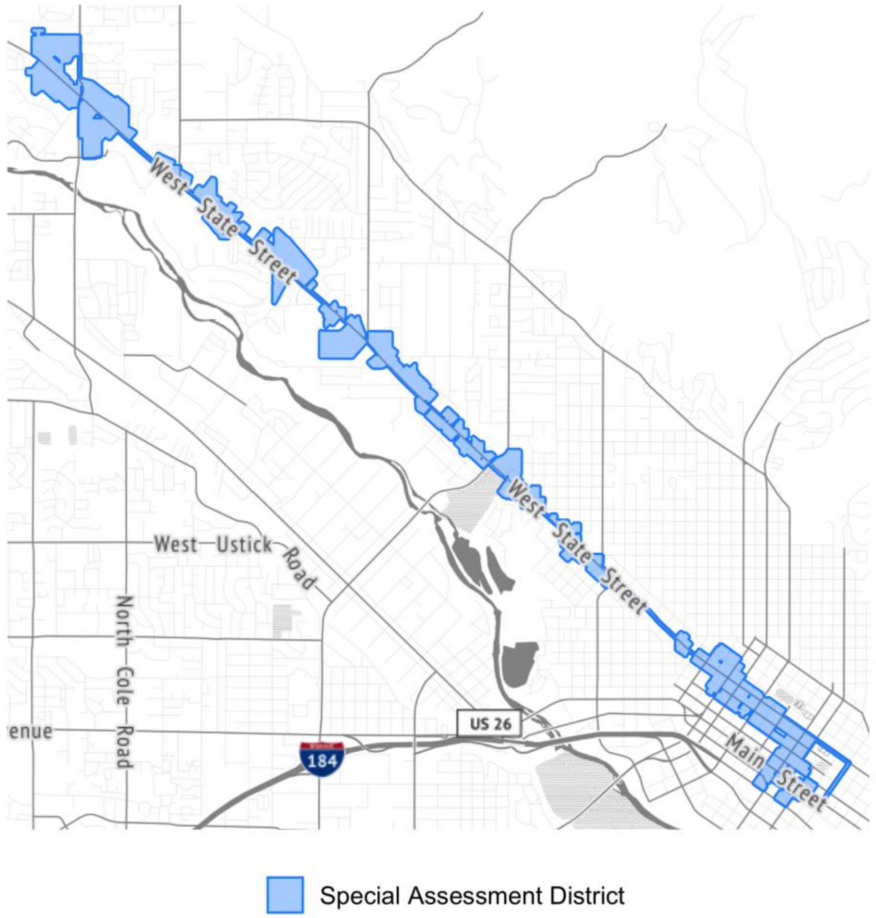
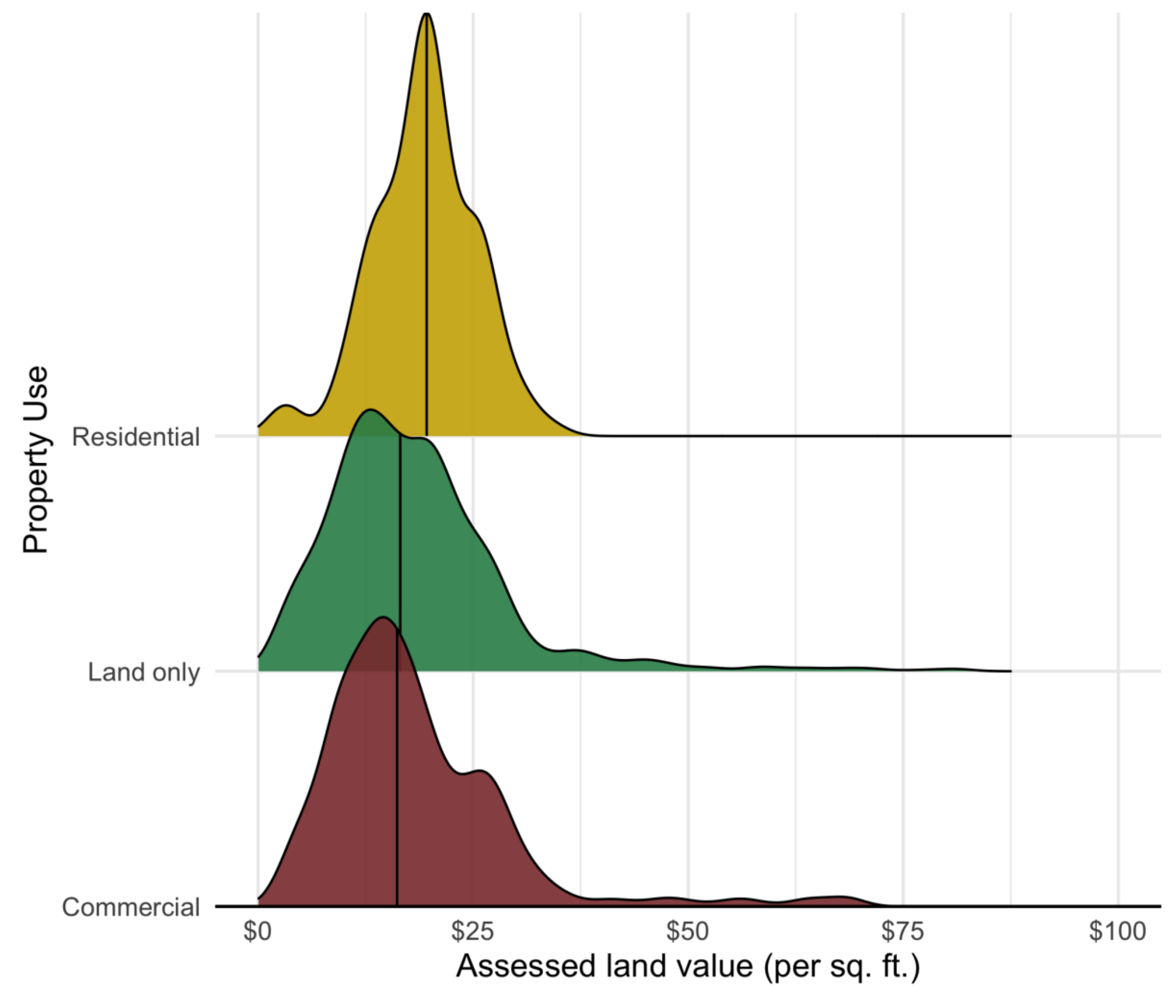
Avoidance: A general sales tax could be avoided by shipping online purchases to an address or PO Box outside of taxing boundary. Based on "purchase decisions of approximately 25,000 online users… people living in high sales taxes locations are significantly more likely to buy online."[ii]
Given the VRT region's proximity to the Oregon border, and the observed trend of Idaho residents commuting cross-border to make larger purchases in Oregon (where there is no sales-tax), it would be reasonable to assume that increasing the region's sales tax through a local option might exacerbate this trend, increasing

Volatility: General sales tax revenue would be relatively stable over time, tracking well with broader economic trends, but with less volatility than an income tax.</td>
<td>A general sales tax is considered regressive because low-income people pay a higher share of their income. Exemptions (e.g., for basic necessities such as groceries) would increase progressivity.

Because there are so many goods and services taxed there may be a weak connection between the tax users pay and the benefits they receive.

Visiting non-residents (e.g., tourists), who also use the transportation system, will bear a portion of the tax burden imposed by a general sales tax.</td>
</tr>
</tbody>
</table>

Addendum

Figure 1. Hypothetical Route 9 Special Assessment District	Figure 2. Estimated Assessed Public Land Values within Transit Corridors
	
Above is the hypothetical special assessment district (SAD) formed by buffer the route line by 660 ft, and capturing all privately-owned, commercially zoned and developed parcels within that area. We have filtered out residential properties due to 1.) the special restrictions around taxing residential properties within Community Infrastructure Districts and the extreme difficulty in garnering 2/3rd support of property owners within the district when including residential lands. This area is not intended to be a fully vetted and realized SAD, but rather a tool used for gauging possible levels of revenue that could be generated from similarly shaped/sized districts with VRT's service coverage area.	Above is the distribution showing the estimated assessed value per square foot of public parcels within 1/4th mile of VRT station areas. Due to data limitations, these values only represent Ada County parcels. These values were calculated by finding the assessed land values of the 12 closest private properties to each public parcel (to a maximum search distance of 1 km) and averaging their assessed land value by property use category. Residentially used land has a higher median value, but narrower spread. Commercial properties at the upper end of the value spectrum are likely to be large, centrally located properties in downtown Boise.

[i] U.S. Treasury Inspector General for Tax Administration. (September 2018). "Billions in Tip-Related Tax Noncompliance Are Not Fully Addressed and Tip Agreements Are Generally Not Enforced." https://www.treasury.gov/tigta/auditreports/2018reports/201830081fr.pdf

[ii] Goolsbee, Austan (May 2000). "In a World Without Borders: The Impact of Taxes on Internet Commerce." The Quarterly Journal of Economics, Volume 115, Issue 2.