

City of Madison

MADISON DEPARTMENT



OF TRANSPORTATION

DRAFT Transit Capital Funding Options

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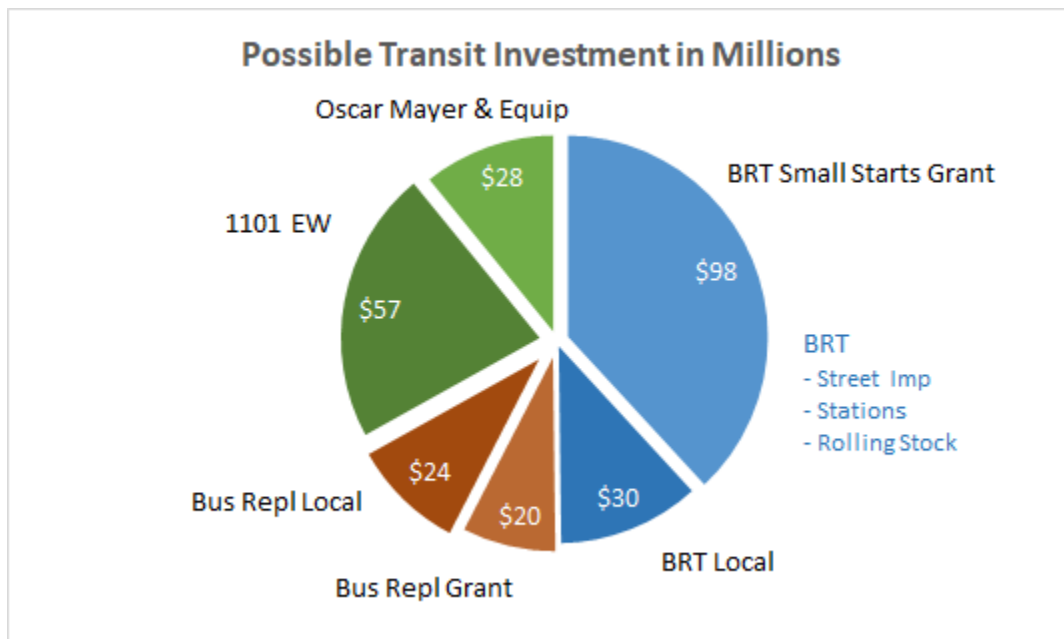
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1.0 Metro Capital Funding Options

The Department of Transportation has been asked to evaluate different funding options for transit investments. What follows is a general summary of some of the funding options that may be available to the City, recognizing that the implementation of any or all of these options would be subject to a thorough legal and policy analysis at the time of use

2.0 Introduction

Madison is evaluating substantial infrastructure improvements to its transit system. In total, investments could approach or exceed \$250 million in capital costs over the next five years. The following pie graph illustrates a general breakdown of how costs could be distributed.



About half of the anticipated expenditures are likely to be covered by federal grants. The remaining funding must be obtained through other methods. General Obligation, or Non-General Obligation bonding is one method of financing the local share of a capital project. Other methods include value capture strategies, benefit assessments, and other federal and state grant opportunities

Value capture is based on the premise that land is more valuable when located by high quality transit infrastructure. Value capture strategies seek to harness the value created (development) to help fund the improvements that created the value. Many studies have shown significant infrastructure investment along transit lines, yet the value creation is not guaranteed. The Cleveland Euclid Avenue Healthline BRT spurred \$9.5¹ billion dollars of new development along its corridor. Conversely, the Grand Rapids Silver line has not yet prompted substantial investment along the corridor, despite high ridership numbers. Madison is pursuing BRT because it is needed for transportation purposes. Value creation would be an ancillary benefit that could provide funding options.

¹ <http://www.riderta.com/healthline/about>

Benefit assessment strategies seek to have existing properties directly benefiting from the capital improvements help pay for the improvements. Special assessments for street reconstruction is an example that is commonly used in Madison.

Obtaining a Small Starts federal grant (5309) will be a prerequisite to implementing BRT. And, the existing 5307 FTA grant program which helps fund bus replacement is expected to continue. However, there are additional federal and state grants that could contribute to capital costs needed to implement the full system.

The following paragraphs describe different funding strategies and options and their potential role in funding Madison's transit investments.

3.0 Impact Fees

Impact fees are governed by Wisconsin Statute Section 66.0617 and MGO Chapter 20. They are meant to capture the capital infrastructure costs necessary to serve new development. New or future infrastructure capacity costs can be recovered by the new development that will use the created capacity. The city is prohibited from imposing impact fees to recover capital costs to pay for those improvements necessary to address existing deficiencies.

Developers would not pay to rectify current deficiencies, they would pay a proportional share of deficiencies that they contribute to.

TIF funds cannot be used where there is a reasonable expectation of Impact Fees or Special Assessments covering those costs.²

Recently the legislature has expressed concerns from the development community about impact fees and there is some risk of further pre-emption attempts. Currently the City of Madison uses impact fees for stormwater, sewer, and park related infrastructure. If our authority is limited by the legislature, it could eliminate this capital funding source for Parks or our sewer and stormwater utilities. There is not another transit agency in the state that is using impact fees for transit infrastructure. To use Impact Fees to help cover costs associated with the implementation of BRT, there must be:

- A rational relationship between the impact fee and the need for new, expanded or improved public facilities that are needed to serve land development.
- A methodology that allocates the need for new (or expanded) capacity to that of future land development. The development of the impact fee structure would have to be defensible and follow statutory requirements, including the creation of a public facility needs assessment. It is likely that the resulting apportionment methodology would be based on trips generated by the new development, with some of those trips allocated to transit.

One might be able to use the capital costs associated with a set of BRT stations along a corridor, and the modeled BRT ridership in the existing and future conditions. The proportion of BRT ridership increase that development contributes could be used to determine an impact fee. The following East Washington Ave illustration helps to understand the order of magnitude impact fees might generate.

² 66.1105 (2)(f)1 states that project costs eligible for TIF funding are diminished by any income, special assessments, or other revenues, including user fees or charges received or reasonably expected to be received by the city in connection with the plan.

$$\frac{\$10,000,000 \text{ BRT station cost} \times 25\% \text{ local share} \times 200 \text{ transit trips generated by a development}}{(6,000 \text{ future ridership} - 3,000 \text{ existing ridership})} = \$167,000$$

Using this formula multiple times through the East Washington corridor could amount to \$1 to \$2 million dollars over the course of a decade. Pursuing impact fees for BRT stations eliminates the ability to use TIF funding for this expenditure.

Another broader application, which could experience closer scrutiny, would be to follow an impact fee arrangement similar to Parks. Using this model, Metro’s broader costs associated with expanded capacity, which could include the Oscar Mayer satellite facility, BRT, as well as additional rolling stock could be used to develop a future transit peak hour capacity. Apply the current Madison average of a 10 percent transit mode share to the trip generation of new developments, a transit capacity allocation could be determined for these developments. New development outside of transit service indirectly benefit by transit’s removal of traffic on key arterials. This provides roadway capacity for the peripheral development, justifying their participation in this impact fee.

The following equations shows the order of magnitude this impact fee arrangement might generate.

$$\frac{\text{Dev Contribution } 250 \text{ development trips} \times 10\% \text{ transit mode share}}{\text{Extra pk hr capacity } 60 \text{ buses} \times 40 \text{ riders}} \times \$27 \text{ million Satellite Cost} = \$281,000$$

For comparison, a single family dwelling might generate an impact fee of \$1,125 using this same equation. When considering the magnitude of impact fees, one must consider how Madison competes for investment with surrounding communities. A recent Transportation Cooperative Research Program report made the following summarizing statement,

“In an efficient real estate market, value capture costs exceeding consumers’ increased willingness to pay for transit amenities creates a competitive disadvantage and can disincentivize investment in development and value creation.”³

A broad impact fee application may draw the attention of state policy makers who oppose fees in general. Whichever type of impact fee arrangement, impact fees contribute to infrastructure costs over time as development occurs. Because of this, their utility may lie in debt service payments than in upfront capital costs.

4.0 Special Assessments

Special Assessment are governed by Wisconsin State Statute Section 66.0701 and MGO Chapter 4.09. They are meant to capture infrastructure costs from properties benefiting from an infrastructure investment. Madison’s Ordinance specifically mentions bus lanes and transit malls, assessing all or a portion of the costs to benefiting properties. Again, costs that can be assessed are not eligible to receive TIF funding according to SS 66.1105 (2) as well as Madison’s TIF policy. Madison regularly assesses properties for street improvements, street lighting, and traffic signals.

³ TCRP Research Report 190, 2016

It is difficult to assess for infrastructure investments distant from the assessed properties (eg. a satellite facility) because the assessment can only be made against properties which receive clearly identified and measurable benefits from the public improvements.

Assessments within the city can be based on frontage (street reconstruction projects), or trip generation (traffic signals). An example for BRT might be for properties fronting East Washington being assessed for the street modifications necessary for creation of a bus lane. This would be a typical application of Madison’s assessment policy. Assessed properties may argue the bus lane benefit is experienced by stakeholders beyond their property. In situations such as this, often the city does not assess the full amount of the street cost to reflect that many users experience the benefit.

An example of assessment magnitude for East Washington Ave bus lanes based on frontage might look like the following hypothetical equation for business frontage.

$$\frac{250 \text{ feet of frontage}}{13,000 \text{ total feet of frontage}} \times \$5 \text{ million} = \$96,000$$

Bus lane Cost

For a single family home the same equation would yield \$15,000, if the benefit could be attributed to the homeowner.

5.0 Tax Incremental Financing (TIF)

Tax Incremental Financing is regulated by Chapter 66.1105 of the Wisconsin Statutes. TIF allows municipalities to temporarily use future increases in property tax revenue (increment) within a district to make public investments designed to stimulate private development within that district. Each taxing authority within the Tax Incremental District (TID) (eg school district, county, technical college, etc.) collects taxes on properties at the frozen base value throughout the life of the TID. The additional taxes generated from development generated property values is used to repay project costs of the public investments.

The state statute indicates project costs “*diminished by any income, special assessment, or other revenues, including user fees or charges, other than tax increments, received or reasonably expected to be received by the city in connection with the implementation of the plan.*” Madison’s TIF Loan Underwriting Policy (2014) also states that TIF may not be used to pay for public infrastructure expenditures that are paid for by special assessments or other City charges.

TIF:

- Cannot be used for costs that are assessable or can be covered by impact fees.
- Cannot be used for constructing or expanding administrative, police, or fire buildings, nor for libraries, community buildings, or school buildings.
- The construction or expansion of a building that is normally financed with utility user fees.
- Can only be used for project costs that occur within one-half mile of the TID with joint review board approval.
- Cannot cover operating costs.

The City of Madison does not establish a new TID until there is a potential development generating increment in the planning process. Currently the proposed BRT line travels through TIDs 25, 36, 37, 45, and 46. The proposed Oscar Mayer satellite site does not currently exist within a TID. The improvements occurring at the current bus storage facility (1101 East Washington Ave.) lie within TID 36, yet the building improvements are likely ineligible for TIF funding.

Madison's TIF coordinator indicated that as of April 2019 approximately \$3.5 million could be available for BRT. As the TIDs mature, it is possible that more could be available by 2022 when BRT is implemented. BRT capital expenses consist primarily of roadway modifications, rolling stock, and stations. Bus lanes are specifically mentioned in Madison's Assessment Ordinance, and therefore probably are not eligible for TIF funding. Rolling stock also does not fit under "project costs" and are likely ineligible for TIF. BRT stations, which are a significant project cost, would be eligible for TIF monies.

One other interesting application of TIF would be to construct additional city owned and operated parking, and use the revenues to support transit. This idea is discussed in Section 9.0.

6.0 Negotiated Exactions (or Development Agreement)

Negotiated exactions are functionally similar to development impact fees, except that they are not determined through a formally documented policy. They often take the form of negotiated conditions for development approval, and occur frequently in Madison's development approval process. Examples include development approval conditions that require construction/contribution to local roads, contributions to traffic signals, dedication of park and open space, and other in-kind contributions. Negotiated exactions need to (1) have a relationship, or nexus, between the exaction requested and the service needs of the development and (2) appropriate proportionality between the exaction and the impact imposed by the development.

One transit related example includes the approval of UW Health clinic in the American Center. As a condition of their approval, UW Health agreed to subsidize transit service to their facility in the American Center.

While incrementally helping transit service to individual development projects, it would be difficult to focus negotiated exactions to the specific improvements needed to implement BRT.

7.0 Bonding Referendum

Wisconsin State Statute 67.05 regulates the issuing of bonds. A city may issue a bond to cover capital costs of an expenditure if a referendum is called. The following paragraph describes what bonding can be used.

5(b) No city or village may issue bonds for any purposes other than [specific exemptions] until the proposition for their issue for the special purpose has been submitted to the electors of the city and adopted by majority vote.

- Bonds can be issued, without a referendum, for all of the exempt purposes itemized in the statute.
- Exemptions that may apply to BRT include – street improvements, parking lots and other parking facilities, and buildings housing machinery and equipment.
- All other purposes, including rolling stock, if financed with bonds, would require a referendum.
- Promissory notes (debt issued for 10 years or less) are not subject to referenda requirements. Rolling stock could be financed with 10 year debt, since those assets do not have a useful life much beyond that amount of time.

For BRT operating costs, a referendum may also be called to raise the city's levy limits. To finance BRT operations, one option would be to seek additional levy authority above the state-mandated limits and dedicate that additional property tax revenue to BRT operations.

8.0 Transportation Utility Fees

Transportation utility fees treat transportation networks, including transit, as a utility – similar to water and sewer utilities. Transportation utility rates can be set based on trip generation. This funding strategy has faced legal challenges in America in that it represents a tax – triggering referendum requirements.

At this time this strategy is probably not feasible. Wisconsin State Statute 196.01(5) defines a public utility, and currently it does not include any transportation function except for a toll bridge.

9.0 Parking Fees

Some local governments and transit agencies have established parking fees to pay for transit. Often parking revenues are used for operating costs, rather than capital costs. UW Madison uses fees generated from parking to help subsidize its bus pass program. The City of Milwaukee currently is funding the operational costs of their light rail (the hop) using Congestion Mitigation and Air Quality (CMAQ) (80%) and a grant from the Potawatomi (20%). After 3 years when the CMAQ funds expire, their ordinance state that parking revenue would supply the gap between revenue and operating costs. Madison's Parking Division creates about a \$5 million surplus every year. This surplus has been directed towards replacement of aging parking structures – such as the Government East and soon State Street ramps.

Policy makers could decide that excess revenues generated from auto use (parking) could be used to subsidize modes that provide an alternative to auto use (transit – bike). This decision could be made on a one-time basis, or on an on-going basis. Delaying the reconstruction of the State Street ramp could provide \$10 million of capital costs. Or, designating 40 percent of surplus parking revenues could be designated towards providing a \$2 million yearly operating subsidy to transit.

If policy makers made the decision to use parking monies to fund transit, it may provide interesting opportunities. TIF is often used to fund structured parking for private developers, whose parking then competes with city ramps for revenue. Another option would be to use that TIF funding to construct city-owned and operated parking. The surplus revenue from that parking could then be used to support additional transit service. Opportunities for additional city-owned parking include the Brayton lot, Lake Street ramp, and possibly a new location near West Gate.

10.0 Naming Rights

Naming rights by private entities (businesses) have been used to help fund BRT shelters or even whole lines. Cleveland's Health Line is an example of naming rights by the Cleveland Clinic, as is University of San Diego's Blue Line. Cleveland's Healthline cost \$199 million and the following table summarizes the Healthline financing, and the part contributed by the Cleveland Clinic.⁴

⁴ <http://www.riderta.com/healthline/about>

Full Funding Grant Agreement (FFGA)

\$82.2 million, FTA New Starts Grant
\$600,000, FTA Rail Modernization Funds
\$50.0 million, Ohio DOT / TRAC Funds
\$17.6 million, RTA / Local Funds
\$10.0 million, NOACA (MPO)
\$8.0 million, City of Cleveland
\$168.4 million Total

Non-FFGA funding

\$25.0 million, ODOT
\$3.75 million, RTA
\$2.85 million, Cleveland Clinic, for working on the part of the project in their area
\$31.0 million, Total, non-FFGA

If used for naming BRT stations, Madison Ordinances may need revision to allow advertising at shelters.

11.0 Joint Development

Joint development is the practice of developing transit owned land in partnership with a private developer. This can provide new sources of revenue for public transportation agencies, which can then be used towards transit.

This method may be an intriguing option for Metro's 1101 East Washington storage facility. Previous studies have indicated that is much more cost effective for Metro to maintain the 1101 facility than to build a new facility in a new location. Yet East Washington is developing at greater heights and densities. There may be opportunity to keep the bus storage and allow private development to occur on parts of the property. The joint development may be difficult, given the industrial use of the bus barn and the development type occurring in other portions of the corridor. Metro is planning an incremental upgrade of the 1101 facility over the next five years costing \$57 million. Joint development opportunities could influence the implementation of these upgrades.

12.0 5339b Grant (Federal Discretionary Grant)

FTA's 5339b grant seeks to improve the condition of the nation's public transportation bus fleets. Both buses and maintenance/storage facilities are eligible to apply for this funding. This funding opportunity is competitive, and FTA "must consider the age and condition of buses, bus fleets, related equipment, and bus related facilities" in granting the award. Madison has applied for this grant in the past, yet Madison's bus fleet is not as old as others in the state or the nation and therefore Madison was not awarded a grant even though past applications were highly rated.

This year Madison applied for this grant to help purchase the satellite bus facility (Oscar Mayer). The grant application included a request for \$7 million in funding. Initial conversations with officials indicate Madison's submittal is competitive. If unsuccessful with the 2019 application, Madison has the continued option to submit for future phases of the satellite facility.

The 5339c grant applies to no or low emission vehicles and could be used for bus purchases. Grant amounts tend to be smaller.

13.0 Local Supplement (State)

The recently passed state budget includes a \$75 million dollar “Local Supplement.” The details of this grant program are currently being developed and it is likely to be similar to WisDOT’s Local Road Improvement Program (LRIP). About \$19 million will be allocated to villages and cities with a focus on fostering economic development and growth. Applications are anticipated to be due in fall of 2019.

14.0 BUILD (Federal)

The US Department of Transportation provides \$900 million in discretionary funding to provide infrastructure funding. The grants are awarded on a competitive basis to projects that will have a significant local or regional impact. BUILD funding can support roads, bridges, transit, rail, ports, or intermodal transportation. The grant is capped at \$25 million per applicant, with no more than \$90 million being allotted to any one state.. The last BUILD cycle placed an emphasis on rural projects. The current BUILD funding will award 50 percent of the funds to rural projects and 50 percent to urban projects.

Madison has applied numerous times for a BUILD grant to fund a satellite expansion. The applications have been unsuccessful, perhaps because they did not align well with key grant objectives. A BUILD grant application requires a benefit cost analysis (BCA), which increases the effort involved in grant submittal. Projects which include a strong safety improvement often are more competitive for grants which require a BCA. Because of this and other factors, such as economic development and Ladders of Opportunity, three requests for bus storage funding were not successful.

The Hop, Milwaukee’s street car, received about \$14 million in BUILD grant funding. (At the time, the grant was called TIGER).

15.0 5307 (Federal)

The FTA 5307 grant is currently used by Madison to help fund bus replacements. Operational costs associated with bus maintenance are also covered. Eligible activities covered by the grant include planning, engineering, design and evaluation of transit projects; capital investments in bus and bus-related activities such as replacement, overhaul and rebuilding of buses. It is a formula grant, with Madison receiving about the same allotment of \$7.5 million every year, of which about a quarter is used to purchase new buses. The remaining three quarters is used for operating expenses associated with maintaining capital investments (buses).

16.0 5337 FTA High Intensity Fixed Guideway State of Good Repair Formula (Federal)

The FTA 5337 grant, state of good repair, provides capital assistance for maintenance, replacement, and rehabilitation projects. Metro gets about \$0.5 to \$1.0 million and typically uses it to purchase buses.

17.0 5339a Grant (Federal)

The FTA 5339a grant is a formula grant and provides funding to states and transit agencies through a statutory formula to replace, rehabilitate and purchase buses and related equipment and to construct bus-related facilities. Madison Metro receives a fixed amount of about \$0.8 million every year from this grant source, with an additional \$0.3 million coming from the state apportionment. Metro typically uses it to purchase buses.

18.0 Possible Value Capture/Funding Strategy

The following table illustrates and categorizes strategies that could be used to offset the local share of funding Metro investments, along with the difficulty of implementing them and the risk associated with them. Further investigation is needed by legal counsel and finance to determine feasibility, prudence, and funding goals for each category.

Transit Component		Potential Funding Strategy	Difficulty	Risk
1101 East Washington Remodel		Limited other than borrowing		
Oscar Mayer		Impact Fees 5339b Local Supplement grant Parking fees	Moderate Low Low Moderate	High Low Low Moderate
BRT	Street Work	Special Assessment <u>or</u> TIF?	Moderate Low	Low Low
	Stations	Corporate Sponsorships TIF <u>or</u> Impact Fees Special Assessment	Moderate Low High High	Low Low Moderate Moderate
	Rolling Stock	5339b grant Corporate Sponsorship	Low Low	Low Low
	Park n Ride	Parking Fees Impact Fees <u>or</u> TIF	Low Moderate Low	Low High Low
Bus Replacement		5307 5337 5339a grant Parking Fees	Low Low Low Moderate	Low Low Low Low

Based on this review, there would be value in creating a (staff) task force to investigate further the feasibility and potential impact of these capital revenue sources.