Developing a Stabilized Public Transportation Revenue Source

Final Report 620

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January 2007

Prepared for:
Arizona Department of Transportation
206 South 17th Avenue
Phoenix, Arizona 85007
in cooperation with
U.S. Department of Transportation
Federal Highway Administration
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### Abstract

The objective of this research was to explore new dedicated funding mechanisms for public transportation for the State of Arizona. The research work began with a search of the existing literature on the subject to determine what other studies had been done about this topic and what innovative financing methods had been discovered. A great deal of information was found addressing public transportation funding and unique funding methods used around the country. Most of the research indicated that various taxes, especially motor fuel tax, provided the majority of funding for public transportation thus far. One report in particular, the Survey of State Funding for Public Transportation 2005, published by the American Association of State Highway and Transportation Officials (AASHTO), proved to be particularly informative. This report is published annually and surveys all 50 states and the District of Columbia for their public transportation funding methods. The literature review was followed by a survey that was sent to each of the 49 other state departments of transportation to further investigate the topic, determine if any programs were in use that were not included in the AASHTO survey, and if any other states had conducted studies on public transportation funding not discovered in the literature review. The survey also inquired about legislation that other states have used to secure funding for public transportation. The survey results were disappointing with very few responses regarding innovative programs or sources of funding. However, between the survey results and her own personal search, the researchers identified 23 pieces of relevant legislation, any of which could potentially serve as a model for future Arizona legislation. It would appear that innovative funding sources across the nation are very rare and often very personalized to the state affected. However, the researchers investigated the programs and legislation provided by the survey, along with what was found by their own research, in order to provide the most comprehensive report possible based on the limited response.

The population and transportation needs for the State of Arizona will continue to increase significantly into the future. Finding a dedicated revenue source is the most effective way of ensuring adequate funding for public transportation that will serve the needs of users. Researchers believe that implementation of one or more of the above potential options will lead to more revenue dedicated to public transportation for the State of Arizona.
### SI* (MODERN METRIC) CONVERSION FACTORS

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<tr>
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**NOTE:** Volumes greater than 1000L shall be shown in m³.

| **MASS**             |                                     |                                       |             |                      |                      |                     |              |             |
| oz                   | ounces                              | 28.35                                | grams       | g                    | g                   | grams             | 0.035       | ounces     |
| lb                   | pounds                              | 0.454                                | kilograms   | kg                   | kg                   | kilograms          | 2.205       | pounds     |
| T                    | short tons (2000lb)                 | 0.907                                | megagrams   | mg                  | mg                  | megagrams          | 1.102       | short tons |

**TEMPERATURE (exact)**

°F Fahrenheit 5(F-32)/9 or (F-32)/1.8
°C Celsius temperature 1.8C + 32

°C Celsius temperature
°F Fahrenheit temperature

**ILLUMINATION**

fc foot-candles 10.76 lux lx
fl foot-Lamberts 3.426 candela/m² cd/m²

lx lux cd/m²
0.0929 foot-candles fc
0.2919 foot-Lamberts fl

**FORCE AND PRESSURE OR STRESS**

lbf poundforce 4.45 newtons N
lbf/in² poundforce per square inch 6.89 kilopascals kPa

N newtons
kPa kilopascals
# TABLE OF CONTENTS

EXECUTIVE SUMMARY ............................................................................................................ 1  
1.0 INTRODUCTION .................................................................................................................... 3  
2.0 LITERATURE REVIEW ......................................................................................................... 5  
   2.1 INTRODUCTION ................................................................................................................5  
   2.2 BACKGROUND ..................................................................................................................5  
   2.3 CASE STUDY EXAMPLES .............................................................................................. 12  
      2.31 Dedicated Taxes ........................................................................................................ 13  
      2.32 Impact Fees .............................................................................................................. 14  
      2.33 Tolling....................................................................................................................... 15  
      2.34 Fares ......................................................................................................................... 16  
      2.35 Advertising ............................................................................................................. 17  
      2.36 Private-Public Partnership/Joint Development ......................................................... 17  
   2.4 CONCLUSION ................................................................................................................... 19  
3.0 SURVEY ................................................................................................................................. 21  
   3.1 SURVEY INTRODUCTION ............................................................................................. 21  
   3.2 SURVEY METHODOLOGY ............................................................................................ 21  
   3.3 SURVEY RESULTS .......................................................................................................... 22  
   3.4 CONCLUSION ................................................................................................................... 26  
4.0 LEGISLATION ...................................................................................................................... 27  
   4.1 INTRODUCTION .............................................................................................................. 27  
   4.2 TAXATION LEGISLATION ............................................................................................. 27  
      4.21 Motor Fuel Tax ......................................................................................................... 27  
      4.22 Sales Tax ................................................................................................................... 28  
      4.23 Rental Vehicle Tax ................................................................................................... 30  
      4.24 Vehicle Registration Tax .......................................................................................... 31  
   4.3 JOINT DEVELOPMENT LEGISLATION ........................................................................ 32  
   4.4 APPROPRIATION LEGISLATION .................................................................................. 33  
   4.5 HOT LANE LEGISLATION ............................................................................................. 34  
   4.6 MISCELLANEOUS LEGISLATION ............................................................................... 35  
   4.7 CONCLUSION ................................................................................................................... 36  
5.0 CONCLUSIONS ..................................................................................................................... 37  
   5.1 INTRODUCTION .............................................................................................................. 37  
   5.2 IMPLEMENTATION OF NEW DEDICATED FEES/TAXES ........................................ 37  
   5.3 INCREASE OF EXISTING DEDICATED FEES/TAXES ............................................... 38  
   5.4 CONCLUSION ................................................................................................................... 39  
APPENDIX A: Survey of State Funding for Public Transportation 2005 ................................... 41  
APPENDIX B: Public Transit Funding Survey Form .................................................................. 43  
APPENDIX C: Survey Cover Letter ............................................................................................ 45  
APPENDIX D: Survey Contact List............................................................................................. 47  
APPENDIX E: Model Legislation................................................................................................ 49  
   ALASKA – Laws of Alaska 2004 ......................................................................................... 49  
   ARKANSAS - Senate Bill 441 ............................................................................................... 49  
   CALIFORNIA – AB 1467 ...................................................................................................... 49  
   CALIFORNIA – San Diego Association of Governments – AB 713 .................................... 49
List of Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1: Summary of Strategies &amp; Techniques</td>
<td>12</td>
</tr>
<tr>
<td>Table 2: Maine Analysis Matrix</td>
<td>25</td>
</tr>
</tbody>
</table>
# GLOSSARY OF ACRONYMS

<table>
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<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>AASHTO</td>
<td>American Association of State and Highway Officials</td>
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<td>APTA</td>
<td>American Public Transportation Association</td>
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<tr>
<td>AzDOT</td>
<td>Arizona Department of Transportation</td>
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<tr>
<td>BTS</td>
<td>Bureau of Transportation Statistics</td>
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<tr>
<td>CNYRTA</td>
<td>Central New York Regional Transportation Authority</td>
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<tr>
<td>CTA</td>
<td>Chicago Transit Authority</td>
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<tr>
<td>FDOT</td>
<td>Florida Department of Transportation</td>
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<tr>
<td>FTA</td>
<td>Federal Transit Administration</td>
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<tr>
<td>GRIP</td>
<td>Governor Richardson’s Investment Partnership</td>
</tr>
<tr>
<td>HHS</td>
<td>Health and Human Services</td>
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<tr>
<td>HOT</td>
<td>High Occupancy/Toll</td>
</tr>
<tr>
<td>HOV</td>
<td>High Occupancy Vehicle</td>
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<tr>
<td>ITS</td>
<td>Intelligent Transportation System</td>
</tr>
<tr>
<td>JARC</td>
<td>Job Access Reverse Commute</td>
</tr>
<tr>
<td>LLC</td>
<td>limited liability company</td>
</tr>
<tr>
<td>MVST</td>
<td>motor vehicle sales tax</td>
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<tr>
<td>NDOT</td>
<td>Nevada Department of Transportation</td>
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<tr>
<td>PDC</td>
<td>planning district commissions</td>
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<tr>
<td>PTAF</td>
<td>Public Transportation Assistance Fund</td>
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<tr>
<td>RIPTA</td>
<td>Rhode Island Public Transit Authority</td>
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<tr>
<td>RTD</td>
<td>Regional Transit District</td>
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<td>SANDAG</td>
<td>San Diego Association of Governments</td>
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<tr>
<td>TIDF</td>
<td>Transit Impact Development Fee</td>
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<tr>
<td>TPD</td>
<td>Transportation Planning Division</td>
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<td>TRB</td>
<td>Transportation Research Board</td>
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<tr>
<td>T-REX</td>
<td>Transportation Expansion</td>
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<tr>
<td>VDOT</td>
<td>Virginia Department of Transportation</td>
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<tr>
<td>VMT</td>
<td>vehicle miles traveled</td>
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<tr>
<td>VRE</td>
<td>Virginia Railway Express</td>
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<tr>
<td>VTA</td>
<td>Valley Transportation Authority</td>
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<td>WMATA</td>
<td>Washington Metropolitan Area Transit Authority</td>
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EXECUTIVE SUMMARY

The funding available for public transportation at the state level is rarely sufficient for the goals of the Department of Transportation. The purpose of this research is to investigate innovative funding mechanisms to provide a dedicated revenue source for public transportation within the State of Arizona. The Arizona Department of Transportation’s (AzDOT) Public Transportation Division must have adequate funding in order to leverage Federal funding and secure partnerships with other entities in the community. Therefore, the researchers were asked to provide a report detailing the ways other states or agencies secure dedicated funding for public transportation programs in their respective jurisdictions and the legislation those states used to secure those funds.

The project is broken into three sections. The first section studies published literature on this topic and related issues. The second section summarizes the results of a survey distributed to DOT representatives in all 50 states to gain an idea of how other states are dealing with the issue of dedicated funding. The survey was designed as a follow up survey to a previous study conducted by the American Association of State Highway and Transportation Officials (AASHTO) entitled Survey of State Funding for Public Transportation 2005 and intended to get more detailed information about the data provided to AASHTO. The survey questions were directed to gain a better understanding of how other states have dealt with the problem of securing dedicated funding. The survey also intended to determine if any programs were in use that were not included in the AASHTO survey, and if any other states had conducted studies on public transportation funding not discovered in the literature review. Lastly, the survey inquired about legislation that other states have used to secure funding for public transportation. A third section investigates the current legislation that other states are using to fund their public transportation programs that could be used as model legislation for the State of Arizona. The principal findings of this report are listed below.

Literature Review

- The issue of dedicated funding for public transportation is diverse and widespread throughout the country and the world. Many studies have been conducted regarding how to best secure necessary funding and combat the shortage of funds.
- Several states have developed programs or taxes and fees to create a significant revenue source for their public transportation programs. These sources are often analyzed in terms of stability, efficiency, equity, and accountability.
- The American Association of State and Highway Officials (AASHTO) published a report in May 2006 entitled the Survey of State Funding for Public Transportation 2005. This report detailed how each state funds their public transportation and includes the dollar amounts generated each year through these various sources.
- Other states have implemented a variety of approaches to fund transit based on the situation present in their respective state. These sources include:
  - Fuel Sales Tax
  - Tolling and Mile Tracking
  - Sales Tax
  - Payroll/Income Tax
  - Property Tax
Survey

- Regarding the existence or development of funding programs outside of federal, state, or local assistance, few states reported having unique programs in existence to deal specifically with funding for public transportation.
- Regarding research performed regarding funding for public transportation, almost no states provided a copy or contact information regarding state research performed.
- Almost half of the survey responses provided information regarding state legislation to secure funding. This was the most successful aspect of the survey.

Legislation

- Eleven examples of model legislation regarding Taxation, including fuel tax, sales tax, rental vehicle tax, and vehicle registration tax are provided.
- Three examples of model legislation regarding Joint Development/Public-Private Partnerships are provided.
- Three examples of model legislation regarding Government Appropriation are provided.
- Two examples of model legislation regarding HOT Lane Development are provided.
- Four examples of miscellaneous model legislation regarding transportation funds, impact fees, and states bonds, are provided.

Recommendations

Recommendations regarding securing dedicated funding for public transportation methods include implementing new dedicated taxes/fees. Impact fees (or fees on development) could provide a viable option for dedicated funding because the high rate of development currently in Arizona equates to a significant fee base. Also, no fee on rental cars dedicated to public transportation currently exists in the state. With Arizona’s growing as a tourist destination, a tax on rental cars dedicated to public transportation could provide significant funding.

Other recommendations include the increase of existing dedicated taxes/fees. Currently, Arizona’s annual $8 vehicle registration fee is the lowest in the nation compared with rates for all fifty states and District of Columbia. An increase in the fee dedicated to public transportation could generate significant annual funding while still remaining relatively low compared to the rest of the country. Other recommendations include increasing the state’s motor fuel and sales taxes. Both tax bases are large enough to create significant revenue without significant costs to the individual.

The population and transportation needs for the state of Arizona will continue to increase significantly in the future. Finding a dedicated revenue source is the most effective way of ensuring adequate funding for public transportation that will serve the needs of users. The researchers believe that implementation of one or more of the above potential options will lead to more revenue dedicated to public transportation for the State of Arizona.
1.0 INTRODUCTION

The purpose of this research is to investigate innovative funding mechanisms to provide a dedicated revenue source for public transportation within the State of Arizona. The Arizona Department of Transportation’s (AzDOT) Public Transportation Division must have adequate funding in order to leverage Federal funding and secure partnerships with other entities in the community. Therefore, the researchers were asked to provide a report detailing the ways other states or agencies secure dedicated funding for public transportation programs in their respective communities and the legislation those states used to secure those funds.

This project began with a literary review of the current research that had been performed on the issue of public transportation funding. An understanding of the existing literature on public transportation provided a framework for the rest of the research. It revealed how some states have developed programs or taxes and fees to create a significant revenue source for their public transportation programs. It also uncovered a report that the American Association of State and Highway Officials (AASHTO) publishes annually entitled the Survey of State Funding for Public Transportation 2005. This report detailed how each state funds their public transportation and includes the dollar amounts generated each year through these various sources. The result of this literature review is found in Chapter 2.

Upon completion of the literature search, a survey of all other state departments of transportation was conducted to gain a better understanding of methods used. Because of the information available in the AASHTO report, the researchers’ survey was designed as a follow up to the report and intended to get more detailed information about the data provided to AASHTO. The survey questions were directed to gain a better understanding of how other states have dealt with the problem of securing dedicated funding. The survey also intended to determine if any programs were in use that were not included in the AASHTO survey, and if any other states had conducted studies on public transportation funding not discovered in the literature review. The survey also inquired about legislation that other states have used to secure funding for public transportation. This data was then compiled in Chapter 3.

Chapter 4 investigates the current legislation that other states are using to fund their public transportation programs that could be used as model legislation for the State of Arizona. It includes the legislation examples provided by the survey responses along with some discovered through the researchers’ own investigation. Not all of the legislation provided is feasible or applicable for the State of Arizona, but the examples provide a demonstration of what has been attempted in other states. In some cases in this chapter, revenue approximations have been calculated based on projected Arizona numbers. These calculations are purely estimations and should not be interpreted as projected revenue for the State of Arizona.

Chapter 5 summarizes the researchers’ conclusions for implementing or further investigating methods of securing public transportation funds for the State of Arizona. It contains a brief discussion of possible feasible options for AzDOT action to resolve the current funding needs.
2.0 LITERATURE REVIEW

2.1 INTRODUCTION

Our literature search on the topic of “public transportation funding” yields varying results. A variety of documents, including studies, reports, and websites, from state and national sources were reviewed and eleven sources are discussed in detail in this literature review. The discussion focuses on the sources that offered the most relevant or unique information to the researchers. A great deal of the literature addresses the issues surrounding the popular fuel tax model, which relies on gasoline tax to fund transportation divisions and projects for a majority of states. Other taxes used include property tax, land development tax, general sales tax, and vehicle registration and rental car sales tax. Alternative revenue sources include the possibility of joint partnerships, toll roads, and vehicle miles traveled tracking. The first half of this literature review addresses the broader issue of funding transportation through various means. The second portion of this review addresses specific case studies where innovative financing techniques have been implemented, or at least attempted, around the country and the results that followed.

2.2 BACKGROUND

This section of the literature review addresses the general issue of transportation funding and summarizes a few of the various studies and surveys that have been conducted regarding the issue. A good portion of this section addresses specific concerns regarding various funding mechanisms, including the efficiency, equity, accountability, and stability measures associated with each. This section includes studies conducted at the state and national level and reports regarding single states and several states combined. Key topics discussed include:

- AASHTO’s Survey of State Funding for Public Transportation 2005
- The advantages and disadvantages of the fuel tax model
- The importance of considering equity, efficiency, accountability, and stability when choosing a funding source
- Innovative financing strategies used throughout the country
- The advantages and disadvantages of non-fuel tax models as dedicated funding sources

The purpose of this section of the literature review is to briefly discuss the type of research that has been conducted on the topic of transportation funding as a whole.

The most useful and directly applicable literature piece found is an annual survey entitled Survey of State Funding for Public Transportation 2005.\(^1\) Published in May 2006, this survey is produced by the American Association of State Highway and Transportation Officials (AASHTO), the American Public Transportation Association (APTA), and the U.S. Department of Transportation Bureau of Transportation Statistics (BTS). The report provides a good deal of

the desired information related to this project, and therefore upon finding this publication, the researchers decided to conduct their survey as a follow up to gain further information and insight into the topic being researched. The AASHTO survey asks each state for the following information:

- Sources of funds
- Nature of programs
- Amounts of funding
- Eligible uses of funds
- Types of Funds
- Allocation mechanisms

The majority of the report details each state’s response to the survey and makes historical comparisons about the data based on results from previous years. In addition, the survey studies several transportation-related ballot initiatives at both the state and local level to determine why some initiatives aimed at increasing funding succeed while others fail.

The AASHTO report found that states spent $9.5 billion on public transportation in Fiscal Year 2005, compared to $7.3 billion provided by the federal government through the Federal Transit Administration in the same year. This figure more than doubles the state funding in Fiscal Year 1990 of $3.7 billion. The survey found the most utilized sources of revenue included the following:

- General fund 19 states
- Gas tax 15 states
- Motor vehicle/rental car sales taxes 9 states
- Bond proceeds 8 states
- Registration/title/license fees 8 states
- General sales tax 7 states

This survey will be referenced further and discussed later in this report.

The Florida Department of Transportation’s (FDOT) Office of Financial Development published *Florida’s Transportation Tax Sources: A Primer*\(^2\) in January 2005 which outlines the varying fuel taxes at federal, state, and local levels. According to the study, “highway fuel taxes constitute the oldest continuous source of dedicated transportation revenues in the state.” The state uses a combination of a flat excise tax rate ($0.04/gallon) and a Fuel Sales Tax (on all motor and specials fuels) with the proceeds designated for the FDOT. Initially, the Fuel Sales Tax was applied like a sales tax at a flat percentage rate applied at the whole point of distribution against a legislated retail price per gallon. The percentage rate is no longer a direct factor, and instead a “floor tax” of $0.069/gallon is indexed according to the Consumer Price Index and then applied to the price. Also, the Florida state legislature allows its counties to “piggyback” on

additional excise taxes. These taxes are applied at a flat rate per gallon and provide a consistent source of revenue for their respective counties.

In addition to fuel taxes, Florida also secures dedicated funding through several fees dealing with vehicle ownership including the Initial Registration Fee, the Motor Vehicle Title Fee, and the Rental Vehicle Surcharge.

The literature reviewed shows evidence that some concerns exist, though, about a system highly dependent on gasoline and fuel taxes. As fuel efficient and alternative fuel vehicles grow in popularity, gasoline taxes struggle to maintain the same revenue levels as in the past. The Transportation Research Board (TRB) released a special report in 2005 entitled The Fuel Tax and Alternatives for Transportation Funding that states “a reduction of 20 percent in average fuel consumption per vehicle mile is possible by 2025 if fuel economy improvement is driven by regulation or sustained fuel price increases.” The publication goes on to determine that offsetting the revenue effect of a situation like that would require such dramatic increases in fuel tax that increasing the tax will not be a viable option much longer. The TRB publication recommends a dramatic restructuring of the funding system that incorporates increased tolling and tracking of miles driven along with taxation on gasoline and alternative fuels.

Another possible obstacle in the fight for fuel taxation is a lack of legislative support. A National Chamber Foundation publication, Future Highway and Public Transportation Financing, claims the major reason for federal funding shortage is that “federal motor fuel tax rates are not indexed to inflation and have lost one-third of their purchasing power since the last adjustment in 1993.” The publication makes the point that with continually increasing needs and decreasing purchasing power, the need for a dedicated funding source is crucial to avoid chronic funding shortfalls.

The 2005 Center for Neighborhood Technology publication Driven to Spend: Pumping Dollars Out of Our Households and Communities highlights the concern of rising gas prices and their regressive effects on lower income communities. This study argues against the use of increased gas taxes as a means of funding transportation because these gas taxes unfairly target lower income families. The study gives the following example of the effects of rising taxes compared to the stationary income levels. “Gasoline and motor oil is approximately 16 percent of a household’s transportation expenditures. If this one component rose by 30 percent, we estimate the total average expenditures on transportation by the end of 2005 will rise by 4.8 percent, or $391, from 2002-2003 levels. This rise is more than the typical household spends annually on prescription drugs and medicines ($312) and dental services ($311) in fee-for-service health care plans, fresh fruits and vegetables, and more than a month of utilities and phone service.” The 2005 study highlights the need for alternative transportation methods and public transit without raising the gas tax as a necessity for lower-income families.

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Transportation Funding Options for the State of South Carolina, published in October 2003 was written to determine the different options for meeting the $56.9 billion target of the South Carolina Multimodal Transportation Plan over the 20-year period from 2003 to 2022. The study evaluates six scenarios based on current and alternative funding sources and measures each in terms of stability, efficiency, equity, and accountability. At the time of the study, South Carolina had the second highest dependency on motor fuel taxes in the country with state and federal fuel taxes accounting for 88 percent of transportation revenues, despite having the sixth lowest overall fuel tax rate in the country. However, the state of South Carolina found that the fuel tax base alone could not keep pace with inflation and the growing needs of the communities. Therefore, alternative sources were evaluated including, but not limited to, a vehicle miles traveled (VMT) tax, road damage or weight/distance tax, alternative fuel taxes, environmental levies, and privatization.

Each scenario includes federal funding (at varying levels), current state and local sources (at varying levels) and a mix of alternative sources. Because future federal funding is uncertain, each scenario is calculated with a “moderate” to “high” level of federal funding. Scenario 1 consists of only current sources and current federal funding and leaves a $30.6 billion gap in budget. Scenario 2 only uses current sources and rates but increases federal funding. This scenario still leaves, depending on the level of federal funding, a $22 billion to $27 billion budget gap. Scenario 3 takes advantage of current and supplemental funding sources with increased federal funding and leaves only a $4 billion to $9 billion shortfall in target budget. Scenario 4 consists of current and supplemental sources with inflation-indexed fuel taxes and vehicle fees, in addition to increased federal funding. This scenario is by far the most progressive and is the only scenario forecasted to create a budget surplus (between $1 billion and $4 billion over the target budget). However, later analysis determined the difficulty in implementing this particular scenario would limit its actual potential. Scenario 5 eliminates the supplemental sources, using only the current sources with indexed fuel taxes and vehicle fees and increased federal funding. The indexed fuel taxes and fees provide for a budget gap of $12 billion to $17 billion (depending on the federal funding). Finally, Scenario 6 incorporates recommendations from the Business Alliance for Transportation and increased federal funding. Even with the recommendations of a professional working group, revenue still leaves a shortfall of anywhere from $9 billion to $14 billion, based on the level of federal aid received.

In addition to evaluating the various scenarios, the study also examined the potential supplemental fees and taxes in terms of efficiency, equity, accountability, and stability. According to the study, an efficient revenue source is one in which “resources are allocated to their highest and best use and net benefits are maximized.” An equitable source is “fair to all parties in terms of financial burden and access.” Accountability is important in terms of stretching the source to be as profitable as possible, and stability of the source is crucial for long term benefits. This study was interested in finding the best mix in its revenue sources. For example, many states use toll roads but South Carolina found that while it may be a stable revenue source, tolling is not efficient or equitable as tolling rarely pays for its own operating costs and unfairly targets those who travel between cities or counties without charging those

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whose live and work within one city. Similarly, the study found that sales taxes, while stable and accountable, are not an equitable source because the tax is not directly linked to transportation.

Ultimately, the “Transportation Funding Options for the State of South Carolina” recommended the state address its funding gap and begin to work toward new and innovative ways of raising revenue for transportation. The report addressed that while the state fuel tax would remain the dominant source, supplemental sources must be developed to broaden the funding base.

The Federal Highway Administration’s *Show Me the Money*, published in December of 2005, summarizes the innovative financing techniques used by cities, counties, and regions around the country to fund various projects and programs. Examples include the following: Anchorage Traffic Department utilized grant funds awarded by a nation-wide insurance company to fund an operational study; the Illinois Department of Transportation has a public/private partnership that utilizes user fees to maintain and manage weigh stations; developers in Los Angeles are required to pay development fees that are used for transportation projects around the city; similarly, developers in Montgomery County, Maryland, have to pay an impact tax prior to receiving issuance of building permits; and the Texarkana Urban Transit District raises revenue by selling the rear and sides of Fixed Route Vehicles for advertising. Most of these examples were not initially intended for dedicated funding purposes, but a few (such as the Maryland’s Impact Tax) have developed into more permanent situations. This report also exhibits the rising trend of corporate sponsorships and partnerships as revenue sources.

In May 2006, the United States Government Accountability Office published “Mass Transit: Issues Related to Providing Dedicated Funding for the Washington Metropolitan Area Transit Authority.” The situation in this report is unique as the Washington Metropolitan Area Transit Authority (WMATA) is a multi-state compact involving three distinct legislative bodies with the District of Columbia, Maryland, and Virginia, but the process of searching for the ideal dedicated funding sources is universal. WMATA funds its operation through passenger fares, parking and advertising fees, and local and state government payments. Each state/district varies in the sources it uses to pay WMATA. The District of Columbia’s operating costs come out D.C.’s general fund. Maryland uses a gas tax, vehicle title tax, and other fees while in Virginia, individual cities and counties are responsible for making payments to WMATA. In determining the most appropriate source of dedicated funding, all three distinct jurisdictions had to be taken into account. As a result, six dedicated revenue sources were assessed on the basis of revenue stability and adequacy, and equity and efficiency.

Sales tax was the first revenue source considered. Revenues from sales tax are more susceptible to economic fluctuations than those revenues from property or fuel tax because they rely on consumer purchases that change with income and they do not keep up with economic expansion in the long run. Sales taxes have a low administrative cost and are relatively easy to collect as the

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systems are already in place, but they may not be as equitable as gas taxes because the consumer paying the sales tax is not necessarily the same consumer driving on the roads.

Payroll or personal income taxes are also susceptible to economic fluctuations but they do keep better pace with economic expansion than sales tax. As opposed to a sales tax, payroll or personal income taxes are progressive in nature, which makes them a better fit with the ability-to-pay principle. As consumers earn more income, they are taxed more as well insuring a more even distribution of financial burden. The administrative costs associated with payroll and personal income taxes remains low so long as they are collected at the state level as part of the already establish income tax.

According to this study, motor vehicle fuel taxes are typically the most stable despite economic fluctuations because fuel purchases do not change as drastically as retail purchases with income changes. However, fuel taxes are more susceptible to random fluctuations as result of natural disaster or oil supply disruption. Motor vehicle fuel taxes also require a larger tax rate because the tax base is smaller compared to the tax base with sales tax and income tax. Equity implications with fuel taxes are more difficult to predict because the fuel tax, like sales tax, is typically regressive in nature.

Property tax revenues are difficult to pinpoint because the property market is so variable. Typically, property taxes are moderately subject to economic fluctuation, but not as dramatically as sales tax because it takes more time for property value changes to show up in property assessments. Because a collection system is already well-established, administrative costs for property taxes are very low but it is difficult to pinpoint the equity effect on consumers. Typically, higher proportions of land are owned by higher-income individuals but that does not mean the tax will always be fairly allocated.

Access fees are the rarest revenue source considered and therefore, the research and literature on this type of fee is limited. An access fee is a fee charged to a property owner whose property is benefited by the location of a nearby transportation resource, such as a transit station or highway on-ramp. Access fees would be fairly stable in economic expansion if the fee rate were set on a per-square-foot, but would not continue to create revenue in the long run unless the rate or taxable space increased. The study comments that implementation and enforcement of these fees would be substantial due to the need for local governments to develop the system. Also, access fees tend to deter interest in land around the public transit station, defeating the purpose the revenue altogether.

Vehicle registration fees are the final revenue source examined. Overall, they tend to be fairly stable as any downturn in the automotive market typically occurs after the downturn in the economic market, but the durability of this type of fee is uncertain because the car ownership rate is already so high. The administrative costs associated with vehicle registration fees would be very low, especially if added to those fees already in place. And the study forecasts that while vehicle registration fees make owning a car more expensive, there would most likely be little to no effect on the number of trips taken by most car owners.
At the time of publication, no final decision regarding the dedicated funding for the Washington Metropolitan Area Transit Authority was available.

However, some states have used these innovative financing tools to fund big projects in order to free up other monies to fund operating costs as well. The Transportation Research Board’s 2001 report entitled “Advanced Public Transportation Systems for Rural Areas: Where Do We Start? How Far Should We Go?”\(^9\) points out the importance of not overlooking grants and federal funds. For example, the Federal Transit Administration (FTA) is the primary source of funding for most rural projects, often requiring only a 50 percent match from local governments for financial assistance. However, there are other federal agencies like the Department of Health and Human Services and the Department of Housing and Urban Development that will grant money for transportation projects as well. These human service agencies’ programs are increasingly funded on a “block grant” basis. These types of grants have less spending restrictions, therefore giving local governments much greater autonomy in deciding the most effective use for the funding. By utilizing these less restricted federal funds, states have more options with their dedicated funding sources.

Similarly, the Virginia Transportation Research Council published a report in March 2006 entitled *Alternative Transportation Funding Sources Available to Virginia Localities*.\(^{10}\) This council defined alternative funding sources as “those that are not included in the annual interstate, primary, secondary, and urban allocations available through Virginia Department of Transportation’s (VDOT) Six-Year Improvement Program.” The report details federal, state, and local programs and their potential uses. For example, in 1997, VDOT and the Transportation Planning Division (TPD) initiated the Rural Transportation Planning Grant Program. Through this program, VDOT and the TPD allocates $200,000 per fiscal year from the General Fund. The program then acts like a competitive grant program at the federal level, but is intended to help support rural transportation planning proposals. The rural planning district commissions (PDCs) must fund at least 20 percent with local funding and administrative charges not above 10 percent of the total cost. This is just one example of the programs listed in Table 1, but it illustrates how the Virginia Department of Transportation is utilizing alternative methods. Although most of the programs are one-time contributions or federal programs, this Virginia Transportation Research Council report provides an idea of how other states are solving the issue of securing dedicated funding sources.


<table>
<thead>
<tr>
<th>Strategy/Technique</th>
<th>Advantages</th>
<th>Disadvantages</th>
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</table>
| Fuel Sales Tax Model                           | -dedicated to transportation  
- low administrative costs  
- large tax base  
- highly equitable to users | - fluctuating revenue levels  
- regressive in nature  
- difficult to acquire legislative support  
- susceptible to issues associated with increased fuel efficiency in vehicles |
| Tolling and Mile Tracking                     | - dedicated to transportation  
- circumvents issues associated with increased fuel efficiency in vehicles  
- highly equitable to users | - requires dramatic restructuring in most states to accommodate new technology |
| Sales Tax                                      | - low administrative costs  
- large tax base | - susceptible to economic fluctuations  
- not necessarily equitable |
| Payroll/Income Tax                             | - progressive in nature  
- low administrative costs  
- large tax base | - susceptible to economic fluctuations |
| Property Tax                                   | - low administrative costs  
- fairly stable | - not necessarily equitable  
- variable revenue source |
| Access Fees (on property near transportation facilities) | - fairly stable | - limited tax base  
- high administrative costs  
- deter interest in property near transit stations |
| Vehicle Registration Fees                     | - dedicated to transportation  
- fairly stable  
- low administrative costs | - uncertain revenue source because of already highly saturated tax base |
| Block Grants from Non-transportation Federal Agencies (i.e. Dept of Health & Human Services) | - less spending restrictions than Federal Transit Administration grants  
- give states more control over funding | - limited availability of funds  
- situational availability based on grant criteria |

### 2.3 CASE STUDY EXAMPLES

This section of the literature review highlights specific case studies throughout the country that have utilized various funding methods. The purpose of this section is to investigate the real-world application of some of the hypothetical funding techniques and observe the results and issue that arose with the actual implementation. The case studies cover the following funding mechanisms:
- Dedicated Taxes
- Impact Fees
- Tolling
- Fares
Not all of the options discussed would be practical for Arizona’s situation and a few of the cases studied discuss options already in place in the state in various capacities, but the purpose of this section is to observe examples of methods that have been attempted and learn from what has proven successful or unsuccessful in each case.

2.31 Dedicated Taxes

Fort Worth, Texas

Dedicated taxes are one popular means of securing dedicated funds for public transit. A 1998 Report published by the Transit Cooperative Research Program entitled, *Funding Strategies for Public Transportation*\(^\text{11}\) cites several examples of this type of tax at both the state and local level. The Fort Worth Transportation Authority in Fort Worth, Texas, has successfully utilized sales taxes as a source of funding. In Texas in 1980, the governments of Dallas and Fort Worth put together a joint referendum for a one cent sales tax for transit use that was defeated by voters. Following the defeat, the City of Fort Worth studied several transportation systems and decided that a sales tax was still the most feasible option for dedicated funding. To pass the tax, local transit authorities hired a political strategy consultant to devise a sales tax campaign. The consultant modeled a campaign focused on education and market segments. Also, one of the terms of the agreement stated that the City Council would retain control over the new transit authority board to ensure efficient and productive spending. In 1983, the referendum for a one-fourth cent sales tax passed with a 55 percent vote. As a result of the sales tax campaign, the transit-dependent precincts’ voter turnout rate was higher than usual and exceeded other precincts turnout rates. The tax structure in this case is fairly simple. The tax receipts, totally nearly $25 million each year, are collected by the comptroller and passed on to the transit agencies.\(^\text{12}\)

Pullman, Washington

Sales taxes are a straightforward and established means of raising funds, but in rural areas, sales tax may not be as profitable or stable as other taxes used to raise funds for transportation. The situation in Pullman, Washington was one example of this. In the 1970s, Pullman had no transit system and the citizens began to lobby for options. Transit systems throughout Washington levy a small sales tax to be used for transit, but Pullman is located only seven miles from Moscow, Idaho, which has lower sales tax. As a result, the Pullman retail industry could not generate enough revenue to support the up-and-coming transit system and needed other sources. Instead, the Pullman legislature worked out a ballot measure to tax utilities up to two percent. A great deal of time and effort went into educating citizens on the reasons behind and the uses for the tax and the ballot was approved in November 1978. The utility taxes, levied on electric, gas,


garbage, water and sewer, and telephone utilities, are collected by the utility companies, remitted to the City of Pullman, and then transferred to the transit agencies. The tax revenues are matched 1:1 by the State of Washington and Pullman receives no federal support for their transit system.

Both Fort Worth, Texas, and Pullman, Washington, have benefited greatly from dedicated taxes as a funding source. However, both of these cases were initially met with opposition, but ultimately succeeded in achieving their respective goals through extensive research and thorough education of the voting sector. Each tax involves different risk though. Sales tax is highly vulnerable to economic fluctuations and utility taxes require careful monitoring of the utility companies involved, but each tax works for its specific situation.

### 2.32 Impact Fees

*San Francisco, California*

Another example of innovative funding techniques is the implementation of developer impact fees in the City and County of San Francisco, California. This unique method follows the line of reasoning that developing new urban areas creates added stress on the transit systems of that area. Therefore, in order to maintain and improve those systems to accommodate the changes, developers should pay a one-time, price-per-square-foot Transit Impact Development Fee (TIDF) designed to collect money at the building’s beginning to cover costs that accumulate over the proposed 45-year life of the building itself.13

For the City and County of San Francisco, the TIDF was decided to be the most logical and profitable means of securing these funds. After spending significant time discussing the necessary legal backing, the San Francisco Board of Supervisors passed the TIDF ordinance in April 1981. The ordinance set the maximum rate at five dollars per gross square foot, and though the fee is recalculated every year, the rate remains fairly constant. San Francisco’s 2002 Countywide Transportation Plan14 states that from its inception through 2002, the fee has collected over $144 million in revenue, and with its success, the county is proposing to increase the rate and range of the impact fee to increase revenues and eliminate developer loopholes that existed with the original model. Before the TIDF was scheduled for collection, it was challenged in the California court system for six years against claims including double taxation, equal protection, due process, and level of the fee. However, the court sided with the impact fee every time. This attests to the careful preparation of the ordinance and anticipation of different types of legal challenges. “The City of San Francisco's planning department recommends that any impact fee ordinance be airtight: perform plenty of studies before adopting legislation, involve the public in hearings, and write the language of the ordinance to stand up against class action suits.”

As clearly seen, the impact fee ordinance requires careful preparation to be as successful as possible.

Like all funding sources, impact fees have potential problems. The downside to this situation is impact fees tend to be highly controversial with developers. Therefore, without strict policies for

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14 *2002 Countywide Transportation Plan*. San Francisco Transportation Authority. 2002. 31-32.
implementation and enforcement, the fee may quickly become obsolete or endlessly challenged in court. The San Francisco transit system, however, proves that the Transit Impact Development Fee can serve as a viable means in securing dedicated funding.

2.33 Tolling

Toll fees are one of the oldest and purest forms of financing transit development, specifically that of freeways and interstates. Dating back to the eighteenth century, private investors formed tolling companies and used part of the income to improve and maintain the road while charging the user. Also, until very recently, toll roads were typically associated with long lines to pay, especially on busy roads. However, with new innovations in toll financing, they are once again becoming a viable revenue source for transit agencies.\(^{15}\)

*Port Authority of New York and New Jersey*

One new concept being explored is value pricing where toll prices are varied based on the time of day and amount of congestion present. For example, the Port Authority of New York and New Jersey operates one bridge and two tunnels connecting New York City and New Jersey as well as three bridges to Staten Island. To combat congestion issues on these very busy roadways, the agency developed a value pricing plan that discounts tolls for motorists during off-peak hours.\(^{16}\) This system also rewards those motorists who use the region’s electronic tolling pass by offering greater discounts during all times of travel. Despite slow progress, the reduction in congestion promotes continued use and expansion of this system.

*Orange County, California*

Similarly, in Orange County, California, the 91 Express Lanes are a four-lane toll highway that runs through the median of the 91 Riverside Freeway, which is one of California’s most heavily congested freeways. The 91 Express Lanes are the first fully automated toll road in the world and use a varied pricing system, charging between $1.00 and $4.75 per trip, depending on the time of day and current congestion. Also, High Occupancy Vehicles (HOVs) pay a reduced toll for use of the road.\(^{17}\)

In 2005, total vehicle trips exceeded 12.7 million with the average number of riders per car (during peak hours) climbed 2 percent over 2004 to 1.52. The total revenue for the 91 Express Lanes was $39.6 million for fiscal year 2005. Though privately owned and operated, this particular toll road is being carefully monitored by CalTrans and the Orange County Transportation Authority to gain insight into how to implement similar value pricing systems in the future.\(^{18}\)


Tolling in the past has been a tedious method of collection and limited source of revenue. However, with modern technology, including electronic collection mechanisms and innovative value pricing systems, tolling on HOV and HOT lanes is definitely a candidate for dedicated funding methods in the future.

2.34 Fares

Fares are one of the oldest means of collecting revenue for transit. While fares are typically dedicated to transit’s operating costs, they are rarely self supporting and therefore, not often considered in discussions on innovative financing. However, new technology is changing the face of fare collection and expanding its possibilities as a revenue source.19

*Springfield, Virginia*

The Virginia Railway Express’s Cashless Fare Program is one example of this new technology at work. When the Virginia Railway Express began in 1991, it decided to cut down on the operating costs associated with collection, security, and sorting of typical fare booths by cutting out the cash payments.20 After a thorough study of the average transit rider, the Virginia Railway Express (VRE) determined that most of its customers would have debit or credit cards and would be able to use the system despite the lack of personnel. Thus eliminating cash as a payment option would not significantly burden potential customers. VRE customers could purchase their tickets through Automated Ticket Machines on the platform or through ticket machine vendors located throughout the service area. Though there was concern with collecting on the debit and credit card payments, on average out of every 100,000 transactions, only two have remained uncollectible. Overall, the system has worked very well for VRE. Less money spent on handling cash means more transit revenues for the agency. Though still not overly profitable, the cashless system may be more efficient for some transit systems.21

*Denver, Colorado*

The Eco Pass is another unique system intended to increase ridership, and subsequently revenues, for the transit agency in the Denver/Boulder metropolitan area of Colorado. Essentially, the system works like employee benefits in a company. Employers in the Denver area who choose to participate in the program purchase the Eco Pass for all their employees, regardless of how many actually use the pass. The Eco Pass allows the user to ride the transit system free of charge. Thus the pass is a tax-deductible recruiting tool for employers and an untaxed benefit for employees. Implemented by the Regional Transit District (RTD) in early 1990s, the Eco Pass performed so well, it exceeded all the agency set goals for increased ridership and decreased vehicle miles traveled. Within five years of the program’s

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implementation, over 35,000 workers were enrolled in the Eco Pass program. As of August 2006, between 80,000 and 90,000 employees work for employers that offer Eco Pass. Price to employers is based on the business’s location and employment rate and the RTD ensures the pass price covers the administrative and marketing costs involved in the program. This system does require more monitoring than the cashless fare system utilized in Virginia, but the resoundingly positive response and the continued increase in ridership shows the program to be a success.22

2.35 Advertising

Chicago, Illinois

Advertising on bus and rail transit systems is an easy way for companies to reach large numbers of people in a very short amount of time. For an advertising agency, busses are essentially moving billboards. Since 1989, there has been a tremendous increase in the advertising seen in public transit systems. For example, the Chicago Transit Authority in Chicago, Illinois, uses advertising on its bus transit systems to raise revenue.

The Chicago Transit Authority (CTA) outsources its advertising program to industry specialists. Every five years, a bidding process opens to the most attractive advertising offer. Once an advertising contractor is selected, CTA provides only the vehicles and the station space and the contractor is responsible for selling the space each month and ensuring the advertisements are kept up to date. Then, every month, the contractor sends CTA 60 percent of its net advertising billings. With this method, CTA has doubled its advertising revenues in the last decade. Advertising revenue totaled approximately $20 million in 2005. Essentially, this advertising program is a very low maintenance revenue source for the Chicago Transit Authority.23

Overall, revenue from transit advertising is typically much smaller than other sources, but remains fairly easy to maintain and collect. Recommendations for a successful advertising campaign include enlisting an aggressive advertising vendor, strictly enforcing vendor consequences for unused space or contract violations, and referencing the transit system in the ads as much as possible.

2.36 Private-Public Partnership/Joint Development

Syracuse, New York

Private-public partnership is growing in popularity as a means of raising funding for transportation. Essentially, the theory behind the partnership is to create a mutually beneficial agreement in which the public and private sectors work together to either raise revenue or improve the value of an asset. Both the Central New York Regional Transportation Authority in Syracuse, New York, and the Nevada Department of Transportation have utilized these partnerships.

The Central New York Regional Transportation Authority (CNYRTA) operates a bus system providing service for 794 square miles in Syracuse and surrounding counties. The transportation authority wanted to replace its diesel buses with natural gas vehicles because natural gas is more environmentally friendly, more stable in price, and relative to diesel in costs. However, in 1996, their natural gas fueling station was closed down and CNYRTA began looking for alternative funding options. After researching different corporations, the transit authority chose Niagara Mohawk, a local utility company, as their private sector sponsor because of the company’s long-term commitment to making the project work. To implement the project, Niagara Mohawk agreed to provide the preliminary design, manage the contract, and pay the entire local share (up to $500,000) of the cost of the new fueling facility. Also, the utility company is responsible for transporting natural gas to the new facility. In return, CNYTRA will approve the design plans at each step along the way, as well as operate and maintain the facility upon its completion. As a side note, the new facility includes a public fueling site and any profits from public sales will be split evenly between Niagara Mohawk and the transit agency.

As of 2006, CNYTRA has increased its bus service to cover 657,715 surface miles, making over 4,000 trips daily. The system is funded by a mix of approximately 35 percent passenger fares and 65 percent local, state, and federal funding.

Las Vegas, Nevada

In a similar manner, the Nevada Department of Transportation and State of Nevada Department of Business and Industry partnered with MGM-Bally's Monorail LLC to begin the city’s monorail in 1993 and then expand the system by seven stations in 2004. Costing $650 million and funded by tax exempt revenue bonds, issued by Salomon Smith Barney and Nevada Department of Business and Industry, the monorail now runs a four-mile route stopping at seven stops between the Sahara Hotel and the MGM Grand.

Santa Clara, California

Similar to the public-private partnerships, the Santa Clara Valley Transportation Authority (VTA) has been nationally recognized for its joint development projects, promoting transit and pedestrian use, including the Tamien Child Care Center and Almaden Lake Village Housing. The goals of these projects are to increase transit ridership and generate revenue by allowing residents and employees easy access to the transit facilities through real estate development on VTA’s land.

Public-private partnerships can be highly profitable for transit agencies, but a long-term commitment from the private sponsor is crucial for successful outcomes. Also, a high level of communication between the parties involved is necessary to ensure all needs are being met.

Lastly, these partnerships may be helpful for large projects, but not as successful when used as a dedicated funding source.

2.4 CONCLUSION

While much of the literature and case studies summarized did not provide direct answers to the search for a dedicated funding source, all of the material related to funding transportation in a number of ways throughout the country. The search for funding for transportation research, development, improvements, and enforcement is not a new topic of interest, but headway is being made in finding realistic and profitable long-term solutions. With the wide range of target markets and goals, each state has unique needs and obstacles that must be met and overcome and no one solution or funding source will be adequate for all states. However, despite possible differing objectives, researching what other states have done to curtail the budget problems in their own counties and cities provides insight and examples of possible solutions for Arizona’s funding needs.
3.0 SURVEY

3.1 SURVEY INTRODUCTION

One of the tasks of this project was an examination of all states in hopes of gaining a better understanding of the variety of funding methods used and how other State Transportation Agencies secure these funds. On May 1, 2006, the U.S. Department of Transportation Bureau of Transportation Statistics (BTS), in conjunction with the American Association of State Highway and Transportation Officials (AASHTO) and the American Public Transportation Association (APTA), published the *Survey of State Funding for Public Transportation 2005*. In this report, each state detailed its current methods of public transportation funding. The findings from this AASHTO survey are discussed in more detail in Chapter 2.

3.2 SURVEY METHODOLOGY

Based on the information found in the AASHTO survey, the researchers chose to create a follow-up survey to ascertain how each state went about securing funding through legislation and program development. Traditionally, surveys sent out for research purposes have an average response rate of approximately 40 percent. In order to ensure the most favorable response for this project, the survey was kept to three questions with two of the questions limited to a yes/no response. The methodology behind the survey was to gain more extensive information about transportation funding programs than what was published in the *Survey of State Funding for Public Transportation 2005* and to develop follow-up contacts for legislation concerns. A copy of this survey can be seen in Appendix C.

All 49 states (except Arizona) and the District of Columbia were contacted and in most cases, a state employee with experience in the transit system was identified. The three-question survey was then emailed out to each state’s contact person along with a cover letter from AzDOT explaining the research and the purpose of the survey. A sample cover letter has been included in Appendix B. A link to the *Survey of State Funding for Public Transportation 2005* was provided within the survey to assist the responder and to encourage consistency. Surveys were emailed to the 49 states and the District of Columbia for which the researchers were able to secure a contact person either from the list provided by the *Survey of State Funding for Public Transportation 2005* or from the researchers’ own investigation. Over the weeks following distribution, responses were collected via email, fax, or phone from 39 states. The survey achieved a 78 percent response rate. However, despite this high return rate, a majority of the responses provided no applicable response in addition to that provided in the AASHTO survey. The data from the responding states were tabulated and sample results are shown.

**Question 1**—If funds from sources other than federal, state, or local government are used, what is the typical or average annual amount, where do these funds come from, and how were you able to accomplish this arrangement?

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The first question of the survey simply asks the responder if his or her state utilizes funds from sources outside of federal, state, or local governments, and if so, how the sources are arranged or contracted. The researchers included this question to give the responder the opportunity to share information about unique funding programs or opportunities within each respective state not already mentioned in the *Survey of State Funding for Public Transportation 2005* or to elaborate further on a program already mentioned in the previously published survey.

**Question 2—Has your State transportation agency performed research on the topic of transit funding? If yes, please provide a point of contact through which we may obtain a copy.**

This question was asked to identify studies similar to this one that may have been performed previously in states outside of Arizona.

**Questions 3—Has your State used legislation to generate new funding mechanisms? If yes, please provide a point of contact through which we may obtain a copy.**

This question was asked to identify legislation in states outside of Arizona used to generate funding mechanisms.

### 3.3 SURVEY RESULTS

**Question 1—If funds from sources other than federal, state, or local government are used, what is the typical or average annual amount, where do these funds come from, and how were you able to accomplish this arrangement?**

Despite the high response rate overall, the survey results for this question were disappointing because 31 (79.5 percent) of the 39 survey responses gave little to no information as an answer to this question. Whether the low response rate indicates that the question was not well understood or that all the information available was already indicated into the *Survey of State Funding for Public Transportation 2005* is not known, but only eight surveys gave a response to this particular question.

**ALASKA**

“Alaska Mental Health Trust – Mobility grants $400,000 annually. [This agreement was] arranged by mutual agreement between Alaska Department of Transportation and Alaska Mental Health Trust Authority.”

**ARKANSAS**

“State funding is approximately $3,000,000 from Rental Car Tax.”
CALIFORNIA

“Local transportation planning agencies reported (State Controller’s Annual Report FY04-05) using $671 million in other unspecified (but could include private funds) and $139 million in developer fees. These are in addition to approximately $4.8 billion in combined federal, state, and local funds.”

COLORADO

“Colorado does not normally receive any transit funding from other than Federal sources. Having said that, I would add on that one major project, the Transportation Expansion (T-REX) joint highway and light rail project on I-25, some private funds were contributed for the construction of pedestrian bridges to light rail systems.”

IOWA

“If you mean sources other than just appropriations from the General Fund, we do receive a dedicated portion of the use tax on sale of motor vehicles and accessory equipment. This is basically the sales tax on such items, but it goes for transportation rather than flowing into the General Fund of the state. Transit currently gets 1/20th of the first four cents (the total tax is five cents on the dollar). This was accomplished in two steps, by transit advocates in the legislature agreeing to support fuel tax increases for highways in return for transit being given a dedicated share of the use tax receipts (1/40th the first time, then another 1/40th). [At the time the tax rate was 4 percent.] The key was that the highway lobby did not have the votes to get their fuel tax increase passed without the transit support.”

NEW HAMPSHIRE

“Contracts between state Health and Human Services (HHS) agency and other agencies and transit providers, locally raised funds from private sector donations, charitable sources such as United Way, farebox revenue, local hospitals, etc.”

MAINE

“The Acadia National Park had established an advertising program with L.L. Bean, where the company donates $250,000 annually in four year contracts in exchange for heavy sponsorship and advertising within the park.”

WISCONSIN

“We have had employer contributions for operating costs in a number of Job Access Reverse Commute(JARC)-funded projects, where employers and local project sponsors identified significant direct benefit to employers. This would amount to $200,000 to $500,000 per year on average.”
SUMMARY

The results of our survey suggest that innovative funding sources are very rare, and innovative funding sources that result in a dedicated revenue source are even rarer. Arkansas, California, and Idaho each responded to this question with a different type of tax, besides that of fuel or motor vehicle taxation. The survey response from Maine included information about an advertising contract, but it was with the national state park areas and not considered a funding method for the Maine Department of Transportation. Colorado, New Hampshire, and Wisconsin each responded with situations where federal or private funds have been utilized, but typically these sources are for one time projects and therefore do not qualify as a dedicated funding method for the transit agency.

Question 2—Has your State transportation agency performed research on the topic of transit funding? If yes, please provide a point of contact through which we may obtain a copy.

Of the 39 responses, only 3 of the survey responses checked yes for this question and provided either a contact or a copy of research. After further contact, each state provided a copy of the research mentioned.

NEVADA

In July 2005, The Nevada Department of Transportation (NDOT) published a draft report of the *Nevada Long-Range Mass Transit Study*\(^{27}\). Because of the blend of rural and urban populations within the state of Nevada, the 2003 Nevada Legislature passed a Senate Concurrent Resolution to conduct a feasibility study on the state’s current and long-range transportation needs within those areas. Part of the study consisted of surveying transit providers in rural and small urban populations to determine whether the existing services were necessary or adequate and what additional services were most requested. Even though the publication is only a draft of the final study, several key findings were relevant to the topic at hand in Arizona. A portion of the Nevada findings concluded:

- Public transit is crucial in rural areas due to the lack of nearby basic services, such as groceries, post offices, and banking facilities, especially for the handicapped, disabled, or senior populations within those areas.
- Lack of taxi service to rural areas increases need for public transit.
- Weekend service is rare and often sporadic should be evaluated to determine possible implementation.
- Coordination between transit providers could result in greater efficiency and lower operating costs for all parties involved.
- Traditional public transit in rural communities (such as local bus transit, rapid transit, intercity bus, and monorail) is feasible due to high costs and competition with urban areas for federal dollars.

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The Nevada study found that at the very least, the current public transit funding needed to remain constant. The overwhelming response from the NDOT survey asked for increased funding so as to increase vital services to their rural communities.

MAINE

The Maine Department of Transportation’s Office of Passenger Transportation published a *Study of Innovative Funding Methods* in August of 2000\(^28\). This report was designed to explore further funding methods to support Maine’s ever-growing transit needs. The report outlines Federal, state, and local options, both dedicated and not dedicated, and then applies those tools to various elements within the Main Strategic Passenger Transportation Plan. Obviously, because Arizona and Maine face different challenges in terms of transit needs, the purpose of this report does not align perfectly with Arizona’s situation, but does provide helpful analysis of several similar options, including advantages, disadvantage, applicability, implementation requirements, and potential revenue. The report also cites other cities and states using the tool currently. Some of the tools described included in Table 2.

<table>
<thead>
<tr>
<th>Description/Applicability</th>
<th>Joint Development</th>
<th>ITS/Smart Cards</th>
<th>1% Rental Sales Tax</th>
<th>National Park Service Fee</th>
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<td><strong>Advantages</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rental cars</td>
<td>Use in tourist areas</td>
<td>Special tax to find new infrastructure in growing or tourist regions</td>
<td>Establish a user fee for access to national parks to be collected at point of entry</td>
</tr>
<tr>
<td></td>
<td>facility, intercity bus stations, parking garage, etc</td>
<td>as means of on site travel information through Intelligent Transportation System (ITS)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lease revenue could cover facility costs</td>
<td>Cost for use could generate additional revenue</td>
<td>Growth in regional economy funds necessary transportation improvements</td>
<td>Will shift the impact cost for car users to transportation alternatives</td>
</tr>
<tr>
<td><strong>Disadvantages</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Potential needs conflict between partners; project may not attract private participation</td>
<td>Could possibly not generate sufficient revenue or be perceived as commercialization of facility</td>
<td>Could be interpreted as simply additional tax or unfair treatment on tourist areas</td>
<td>Requires negotiation between federal and state governments</td>
</tr>
<tr>
<td><strong>Implementation Requirements</strong></td>
<td>Developing authority must enter lease agreements with partners</td>
<td>Fee agreements</td>
<td>Legislation to implement tax</td>
<td>Appropriate negotiation between federal and state governments</td>
</tr>
</tbody>
</table>

Though the needs and geographic challenges are different between the states, the Maine report still offers valuable insight on a few unique funding methods as well as examples of other states already utilizing those methods.

TENNESSEE

The Tennessee Department of Transportation provided links to the summary of the 2004 publication *Tennessee Transit Tomorrow*. The report was designed to plan for the future of transportation in Tennessee and the role the Tennessee Department of Transportation will play in that future through the year 2025. Funding is a crucial part of this planning. In 2003, the urban transit systems in Tennessee spent $106 million for operations with 29 percent from fares and other generated revenues, 39 percent from local government funding, 16 percent from state funding and 16 percent from federal funding. For the rural systems in Tennessee, operations costs totaled $20.9 million in 2003 including 39 percent from contract fares, 3 percent from local government funding, 26 percent from state funding, 29 percent from federal funding, and 3 percent from other generated revenues. However, there are no financial sources dedicated to support transit within the state of Tennessee. In terms of finding a sufficient and fair revenue source, the report considers a number of options with dedicated funding potential. The state of Tennessee estimates a required $2.98 billion dollars over the next 25-year period to attain its goal of tripled ridership. The report states, “Although that seems like a large number, it is a manageable number spread over 20 years, rising in increments to a peak in 2016 and then declining. There are several potential statewide tax sources that could generate sufficient revenues to fund those requirements. Another option, rather than an increased tax or a new tax, is to dedicate a portion of existing gas tax or other transportation revenues to the transit program.”

Questions 3—Has your State used legislation to generate new funding mechanisms? If yes, please provide a point of contact through which we may obtain a copy.

Of the 39 responses, 15 of the survey responses checked yes for this question and provided either a contact or a copy of legislation. Details about this legislation will be detailed in the next chapter.

3.4 CONCLUSION

Overall, the survey results were fairly disappointing because the limited number of results and the limited information provided. However, following up with those states that did respond with information proved to be more successful. The first question on the survey was either misunderstood or innovative funding programs are very rare throughout the United States. For the second question, there was a very low response rate, but the literature received was helpful. The Nevada study appears to be fairly close in nature to the research currently being performed by Arizona. The report from Maine proved less helpful only because the situations and needs of the state are different. The Tennessee literature did not provide as many possible options as the other two reports, but it helped to reaffirm that other states are also searching for dedicated revenue sources with limited success.

Perhaps the most successful aspect of the survey was the legislative contact responses. Almost 40 percent of the responses provided legislative contacts and a few provided more than one example of legislation within their respective states. Not every piece of models legislation will be applicable, but the examples provide valuable insight into transportation funding around the country. The next chapter will focus on the legislative models received and the potential for similar legislation within Arizona.

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4.0 LEGISLATION

4.1 INTRODUCTION

The following is a compilation of legislation regarding dedicated funding methods for public transportation. A majority of the legislation cited was in response to Question 3 from the researchers’ survey, regarding legislative generated funding mechanisms. In addition, the researchers included some legislation found through their own scan of online sources and legislation databanks. The following provides a brief description of the legislation found; however, the legislation itself can be found in Appendix E.

4.2 TAXATION LEGISLATION

4.21 Motor Fuel Tax

VIRGINIA – Regional Motor Fuel Tax

This legislation levies a 2 percent tax on all fuel sales in the northern regions of the State of Virginia. The legislation delineates what specific districts are subject to the tax and the date the tax shall become effective.

In Fiscal Year 2005, this tax raised $42.3 million for the state of Virginia. A portion of these funds supported Virginia’s share of the Washington Metropolitan Area Transit Authority (WMATA) and another portion of the funding supported the operating and capital expense of several transit projects, including the commuter rail and local bus system.31

NEVADA – Senate Joint Resolution 14

In 2005, the Committee on Finance for the Nevada Legislature introduced Senate Joint Resolution No. 14 that “proposes to amend Nevada Constitution to allow use of revenue generated from fees and other charges related to operation of motor vehicles upon public highways of State and revenue from gasoline taxes for other transportation needs.” The resolution allows more flexibility with Nevada’s existing taxes so that the money may be used for public transit projects in the future. The bill became effective July 1, 2005.

RHODE ISLAND – Motor Fuel Tax – Title 31

The Rhode Island Statutes specify that all money from the state’s Motor Fuel Tax be deposited into the Intermodal Surface Transportation Fund for further allocation. This legislation then allocates $0.0625 per gallon to the Rhode Island Public Transit Authority (RIPTA) to be used as dedicated operating assistance for the state.

In Fiscal Year 2005, this legislation resulted in $30,218,758 for RIPTA’s Operating Assistance program. Currently, RIPTA operates outside of the Rhode Island Department of Transportation, but in Fiscal Year 2006 and afterward, the allocation will increase to $0.0725 per gallon, on the condition of introducing a market research project to study the feasibility of moving the Authority into the Department of Transportation.  

**Application to Arizona**

Using information from the Bureau of Transportation Statistics on State Motor-Fuel Tax Rates: 2004, Arizona’s $0.18/gallon tax rate ranks 12th lowest compared with rates for all 50 states and the District of Columbia. An additional $0.02/gallon fee would change Arizona’s rank to 21st lowest, still in the bottom half of all states and the District of Columbia for the gas tax rates.

According to Arizona Department of Transportation Motor Vehicle Division Statistics, for the 2004-05 Fiscal Year, 2,735,085,693 gallons of gas were sold. Using this figure, a $0.02 fee on each gallon sold dedicated to public transit would have generated $54,701,713 for this past fiscal year. Similarly, an allocation of $0.0625 (such as in Rhode Island) would have generated approximately $170,942,856 for this past fiscal year.

**4.22 Sales Tax**

**INDIANA – Sales and Use Tax**

In Indiana, the sales and use tax rate is 6 percent of the purchase price for retail items. Sales tax is collected on the sale of merchandise within Indiana and use tax is collected on purchases made outside of Indiana if sales tax is not collected. The merchants collect the tax and are then held liable for the amount they should collect. This tax is then paid directly to the Department of Revenue.

Transit in Indiana receives 0.775 percent of the Sales and Use Tax. In 2005, this tax raised $37 million for the Indiana Department of Transportation. Of that amount, $30 million was deposited into the Public Mass Transportation Fund to be used for operating and capital expenditures. The remaining $7 million is used as a dedicated funding source for the rail service between South Bend and Chicago.

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COLORADO – Senate Bill 1

The Colorado General Assembly passed Senate Bill 1 (SB 97-001) in 1997 as a measure to provide additional funding from sales and use tax revenues associated with automobiles. Due to legislation, the Colorado General Fund may only increase by 6 percent annually. Senate Bill 1, therefore, provided that all extra funds from the sales tax be transferred to the Highway Users Tax Fund. Then in 2002, the Colorado Legislature passed a bill requiring at least 10 percent of Senate Bill 1 transfers be used for transit. However, because the funds are dependent on excess sales tax funds, there has been no funding due to Colorado’s economic downturn. The Colorado Department of Transportation is not anticipating any funding from this source until 2007 at the earliest.

VIRGINIA – Commonwealth Transportation Trust Fund – Section 58

In 1986, the General Assembly of Virginia increased the state sales and use tax by 0.5 percent to help establish the Commonwealth Transportation Trust Fund (as defined in § 33.1-23.03:1). This legislation from Section 58 establishes that 14.7 percent of the trust fund is dedicated to the Commonwealth Mass Transit Fund. The legislation is very explicit about how the funds are to be divided up and used by the transit agencies.

The Commonwealth Transportation Trust Fund is supported by several general and motor vehicle taxes and provides most state funding for transit in Virginia. In Fiscal Year 2005, this legislation resulted in $109.1 million for the Commonwealth Mass Transit Fund for transit projects throughout the state.

MINNESOTA – Motor Vehicle Sales Tax Amendment

In Minnesota, the motor vehicle sales tax (MVST) is the 6.5 percent sales tax applied to the sale of new and used motor vehicles. The tax has changed several times since its institution and was even abolished completely in 1992. However, the tax was reinstated in 2000, and in 2003, the legislature increased the percentage of the tax dedicated to transit funding. In November 2006, the Minnesota voters passed a constitutional amendment that would gradually dedicate all MVST revenue to fund transit within the state by 2012. This tax will serve as one of the few dedicated funding sources specifically for transit.

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40 Tom Mauser, Modal Planning Manager. Colorado Department of Transportation. Phone interview by the author. September 22, 2006. 303-757-9768. Tom.Mauser@dot.state.co.us.
Applicability to Arizona

According to the Arizona Department of Commerce, Arizona retail sales in 2005 totaled $46.3 billion.\textsuperscript{45} A ¼ percent sales tax dedicated to public transportation would have generated $115.75 million for the fiscal year. A ½ percent sales tax dedicated to public transportation would have generated $231.5 million for the fiscal year.

4.23 Rental Vehicle Tax

ARKANSAS - Senate Bill 441

During Regular Session of 2005, the General Assembly for the State of Arkansas enacted a 5 percent rental vehicle tax on the gross receipts of all motor vehicle rentals rented for less than 30 days. The bill prescribed that 75 percent of the funds shall be deposited into the Arkansas Public Transit Trust Fund and 25 percent into the Department of Education Public School Fund. The bill then states that the money in the Arkansas Public Transit Trust Fund “shall be used by the Arkansas State Highway and Transportation Department for the purpose of acquiring federal matching funds for the purchase of transportation vehicles, for public transit equipment or facilities, and for the operation of the United States Department of Transportation Federal Transit Administration Assistance programs.”\textsuperscript{46}

In Fiscal Year 2005, this tax raised $2.8 million for the State of Arkansas which was used for capital match and operating assistance for urban and rural systems and for expanding Arkansas’s 5310 Elderly and Disabled programs.\textsuperscript{47}

FLORIDA – 2006 Statutes – Chapter 212\textsuperscript{48}

The Florida State Statutes Chapter 212 contains information on the Rental Car Surcharge. This statute states “A surcharge of $2 per day or any part of a day is imposed upon the lease or rental of a motor vehicle licensed for hire and designed to carry less than nine passengers regardless of whether such motor vehicle is licensed in Florida.” The statute then specifies that of the revenue collected, 80 percent of the proceeds are deposited in the State Transportation Trust Fund, 15.75 percent are deposited in the Tourism Promotional Trust Fund, and 4.25 percent are deposited in the Florida International Trade and Promotion Trust Fund.

In Fiscal Year 2005, this rental car surcharge raised $91 million for the Florida Transportation Trust Fund. Approximately 4 percent of the Florida Transportation Trust Fund supports transit


\textsuperscript{46} State of Arkansas. General Assembly. \textit{An Act to Provide for the Distribution of the Rental Vehicle Tax; and for Other Purposes}. 85\textsuperscript{th} General Assembly. Regular Sess., 2005. Senate Bill 441.


within the state. Therefore, the rental car surcharge generated an estimated $3.6 million for transit during the year.49

4.24 Vehicle Registration Tax

NORTH DAKOTA – Senate Bill 234850

In 2005, the Legislative Assembly of North Dakota enacted Senate Bill 2348 which served to amend two prior sections of the North Dakota Code relating to funding of public transportation. North Dakota uses a flat vehicle registration fee to fund their public transit within the state. This bill raised the fee from $2 to $3 per registered vehicle. These fees are deposited with the state treasurer, who then credits the fee to the state’s public transportation fund. The second portion of this bill addressed the distribution of the funds to the state’s transportation providers. Under Bill 2348, each county receives a base amount of $18,300 in addition to $1.50 per capita in the county. This would change the transit funding from its current level of $12,200 base and $1.56 per capita per county. Unless provided by law, any remaining money in the fund is retained for future distribution.

In Fiscal Year 2005, this tax raised $2.2 million for the State of North Dakota Public Transportation Fund. However, this figure is based on the old figures of $12,200 base plus $1.56 per capita. In North Dakota, this state aid is not restricted and can be used for all transit costs, including operations and capital costs, transit planning, and the costs associated with matching federal transit funds.51

WISCONSIN – Vehicle Registration Fee52

Chapter 341 of the Wisconsin Statutes provides for an annual $55 registration fee of all passenger vehicles to be deposited in the State of Wisconsin Transportation Fund. The chapter also details the fee collection, vehicle exemption, vehicle specifications, and penalties associated with not following the correct procedure. These statutes also outline the registration requirements for dealers, distributors, manufacturers, transporters, and finance companies.

In May 2005, the Wisconsin Joint Committee on Finance published Paper 718 entitled Vehicle Registration Fee Increases for Automobiles and Light Trucks.53 This publication proposed a $10 increase for the vehicle registration fee to $65 annually. If the proposal is accepted, the increase

could result in an estimated increase in the transportation fund revenue by $23,201,300 in 2005-06 and $47,656,300 in 2006-07. The publication also recommended an increase in vehicle title fee and replacement vehicle title fee for additional revenue. At the time of publication of this report, there was no official legislation regarding the proposed increase.

Application to Arizona

Using information from the Federal Highway Administration’s Summary of State-Motor Vehicle Registration Fee Schedule54, Arizona’s annual $8 vehicle registration fee is the lowest compared with rates for all fifty states and the District of Columbia. This registration fee is extremely low compared to the national average of $33.66 annually. Even if Arizona increased its current fee to $18 annually, it would still rank in the lowest fifth of the country for registration rates.

According to Arizona Department of Transportation Motor Vehicle Division Statistics, the total number of registered vehicles for Fiscal Year 2006 and Fiscal Year 2007 are estimated to be 6,318,402 and 6,408,067 respectively.55 Arizona’s current annual registration fee is $8. A $1 fee increase dedicated to public transit (similar to South Dakota’s recent increase) would generate $6,318,402 and $6,408,067 over the next two fiscal years alone. A $10 increase dedicated to public transit (similar to Wisconsin’s recent proposal) would generate $63,184,020 and $64,080,670.

4.3 JOINT DEVELOPMENT LEGISLATION

**FLORIDA – 2006 Statutes – Chapter 337**56

The Florida State Statues Chapter 337 contains information entitled Lease of Property for Joint Public-Private Development and Areas Above or Below Department Property. This statute states “the department may lease to public agencies or private entities, for a term not to exceed 99 years, the use of department property, including rights-of-way, for joint public-private transportation purposes to further economic development in this state and generate revenue for transportation.” The statute outlines the specifications required to entering into a public-private development project including procedures for submitting and accepting a proposal, and the rights and requirements for all parties involved.

**DELWARE – Title 2, Chapter 20**57

Similar to the Florida Statutes, the Delaware Code has an initiatives program set up to facilitate the use of public-private partnerships. The code recognizes that “a significant alternative to

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public revenue sources is a public-private sector initiatives program permitting private entities to undertake all or a portion of the study, planning, design, development, financing, acquisition, installation, construction, improvement, expansion, repair, operation and maintenance of public transportation projects for the citizens of Delaware in exchange for the right to lease or own the facilities for an agreed-upon period and earn a reasonable rate of return through tolls or user fees.” This code specifies the requirements for eligibility, proposal procedures, and rights of all parties involved. It also outlines the Public-Private Initiatives Program Revolving Loan Fund.

CALIFORNIA – AB 1467

In May 2006, the California Legislature approved Assembly Bill 1467 to extend the existing law to “authorize the department and regional transportation agencies, as defined, to enter into comprehensive development lease agreements with public and private entities, or consortia of those entities, for certain transportation projects that may charge certain users of those projects tolls and user fees, subject to various terms and requirements.” The bill outlines specifications and requirements, including how the proposals will be submitted and chosen and implemented, how the money may be collected and used, and who will be affected.

4.4 APPROPRIATION LEGISLATION

ALASKA – Laws of Alaska 2004

The Alaska Mental Health Trust arranged an annual $650,000 grant with the Department of Transportation/Public Facilities to be used in part for public transportation operations and facilities. These funds are currently used for planning and capital expenditures.

MAINE – Transit Bonus Payment Program

Maine faces unique challenges in funding due to a constitutional barrier against using state highway tax dollars for nonhighway uses. However, the state has established a local Transit Bonus Payment Program which gives individual towns a bonus in their local accounts if they increase transit contributions.

NEVADA – Rural Transit Operations Funding

In March 2005, the Nevada Legislature introduced Senate Bill 440 with the purpose of “making a contingent appropriation to the Department of Transportation for Rural Transit Operations.” This bill provides for the appropriation of $761,391 from the State General Fund to the Rural Transit Fund for Fiscal Year 2005-2006 and Fiscal Year 2006-2007. The bill states that the funds must be matched by the cities and counties who will receive it. The Nevada Legislature is currently working on a draft for the 2007 Legislative Session that would appropriate almost $5 million annually to the Rural Transit Fund for Fiscal Years 2007-2008 and 2008-2009. The draft

58 State of California. An act to amend Section 143 of, and to add Section 149.7 to, the Streets and Highways Code, relating to transportation. 2006 California Laws. AB 1467.
4.5 HOT LANE LEGISLATION

**CALIFORNIA – San Diego Association of Governments – AB 713**

As one of the earlier demonstrations for the High Occupancy/Toll (HOT) Lane model, in 1993, the General Assembly of California passed AB 713 authorizing “the San Diego Association of Governments (SANDAG), in cooperation with the Department of Transportation, to conduct a demonstration program pursuant to which single-occupant vehicles would be allowed to use the high-occupancy vehicle lane on a specified portion of Interstate Highway Route 15 (I-15) for a fee.” The remainder of this bill outlined the requirements and specifications for the project, including how the revenue generated was to be used and how the results of the project would be reported to the Legislature. According to the Resolution signed by SANDAG on November 21, 1997, the fee would range from $0.50 to $8.00 per trip, depending on time of day and congestion level.

**CALIFORNIA – AB 1467**

In addition to the Private-Public Partnership information stated above, the California Assembly Bill 1467 also “authorizes regional transportation agencies, in cooperation with the department, to apply to the commission to develop and operate high-occupancy toll lanes, including the administration and operation of a value pricing program and exclusive or preferential lane facilities for public transit, as specified.” The bill allows for four HOT Lane projects within the state of California until January 2012. The bill outlines specifications and requirements, including how the plans will be chosen and implemented, how the money may be collected and used, and who will be affected.
4.6. MISCELLANEOUS LEGISLATION

PENNSYLVANIA – Public Transportation Assistance Fund\textsuperscript{66}

In 1997, the Pennsylvania General Assembly approved House Bill 357, creating the Public Transportation Assistance Fund (PTAF) as a dedicated source of revenue for public transportation. The Fund combines a tire tax, rental vehicle tax, vehicle lease tax, and sales tax transfer. The bill states a fee of $1 on all tire sales to be collected by the seller and remitted to the Department of Revenue. Every motor vehicle lease is subject to a 3 percent tax on the lease price. Rental vehicles incur a daily $2 fee to be dedicated to public transportation. And finally, a portion of the state sales tax is to be transferred annually.

In Fiscal Year 2005, this legislation along with state provided general funds generated over $175 million in revenue urban and rural transportation, community assistance, and technical assistance.\textsuperscript{67}

NEVADA – Impact Fees – 2003 SB 237\textsuperscript{68}

In 2003, the Nevada legislature passed Senate Bill 237 to increase impact fees for new developments in Washoe County and its incorporated cities. The bill states how and when the fee is to be collected and where the money should be deposited. Also, the bill specifies who shall benefit from the revenue generated, including the Regional Transportation Commission and the transportation projects deemed suitable.\textsuperscript{69}

According to the Washoe County 2030 Transportation Plan\textsuperscript{70}, the fees were initially implemented in 1995 and averaged annual revenue of $22 million over the first five years. The fee and projected yields are recalculated every three years to adjust for inflation, and the fees’ expected yield through 2030 is $974.5 million. Though this fee is not dedicated specifically for public transportation, it does provide an example of the types of revenues and impact fee similar to this one could generate for Arizona.

PENNSYLVANIA – Transportation Impact Fees – House Bill 1719\(^71\)

The 2005 General Assembly of Pennsylvania passed House Bill 1719 further defining the use of Transportation Impact Fees for Pennsylvania development. The bill outlines the definition and purpose behind the impact and assigns that the municipality shall be responsible for the implementation, collection, and disbursement of the fee. This house bill also states very specifically how the fees may and may not be used. For example, “Transportation impact fees may be used for those costs incurred for improvements designated in the transportation capital improvement program which are attributable to new development, including the acquisition of land and rights-of-way; engineering, legal and planning costs; and all other costs which are directly related to road improvements within the service area or areas, including debt service.” However, the fees are not to be used for the preparation, acquisition, operation, or maintenance of new capital projects or land developments or to cover deficits from prior projects within the municipality.

NEW MEXICO – House Bill 15 – GRIP\(^72\)

The 2003 New Mexico House Bill 15, otherwise known as Governor Richardson’s Investment Partnership (GRIP), provides for the issuing of $1,585,000,000 in state bonds for special transportation projects. The revenue from these bonds is allocated to fund numerous road improvements and developments, but also provides for “the reconstruction and improvement of interstate 25 to accommodate public transportation elements, including commuter rail from Albuquerque to Santa Fe.” The bill does not indicate specifically what percentage of the bond funds are dedicated to the commuter rail or other public transportation projects but it does represented a dedicated funding source through allocation of state bonds. However, there has been some criticism of Richardson’s transportation system regarding misappropriation and overspending of the funds when actual expenditures exceeded projected costs.\(^73\) This criticism reaffirms that equity and accountability are important factors when choosing a funding mechanism.

4.7 CONCLUSION

The legislation in this chapter illustrates some of the currently used mechanisms for securing transit funding. Not all of the listed legislation models are feasible or applicable for the state of Arizona and the goals of this project, but the examples provide an idea of what has been attempted with success in other states with similar needs. In the case of the Sales Tax, Motor Vehicle Tax and Vehicle Registration Tax, some revenue approximations have been calculated based on projected Arizona numbers. These calculations are purely estimations and should not be interpreted as projected revenue for the State of Arizona.


\(^73\) Gessing, Paul J. “Richardson Railroads Taxpayers.” *National Review Online* 1 Dec. 2006. 1 Dec. 2006 http://article.nationalreview.com/?q=YjBhNWFjMGUwZGRjYmZmZDI5MjEyOWNhMDc1M2ZkMjA=. 36
5.0 CONCLUSIONS

5.1 INTRODUCTION

The objective of this research was to explore new dedicated funding mechanisms for public transportation for the State of Arizona. The research work began with a search of the existing literature on the subject to determine what other studies had been done about this topic and what innovative financing methods had been discovered. A great deal of information was found addressing public transportation funding and unique funding methods used around the country. Most of the research indicated that various taxes, especially motor fuel tax, provided the majority of funding for public transportation thus far. One report in particular, the Survey of State Funding for Public Transportation 2005, published by the American Association of State Highway and Transportation Officials (AASHTO), proved to be particularly informative. This report is published annually and surveys all 50 states and the District of Columbia for their public transportation funding methods. The literature review was followed by a survey that was sent to each of the 49 other state departments of transportation to further investigate the topic, determine if any programs were in use that were not included in the AASHTO survey, and if any other states had conducted studies on public transportation funding not discovered in the literature review. The survey also inquired about legislation that other states have used to secure funding for public transportation. The survey results were disappointing with very few responses regarding innovative programs or sources of funding. However, between the survey results and their own personal search, the researchers identified 23 pieces of relevant legislation, any of which could potentially serve as a model for future Arizona legislation. It would appear that innovative funding sources across the nation are very rare and often very personalized to the state affected. However, the researchers investigated the programs and legislation provided by the survey, along with what was found by their own research, in order to provide the most comprehensive report possible based on the limited response. The researchers’ conclusions are as follows.

5.2 IMPLEMENTATION OF NEW DEDICATED FEES/TAXES

1) Impact Fees - The study found that several states or counties are utilizing impact fees to offset the cost of new construction/development in both urban and rural areas. With the amount of development planned for Arizona, this type of impact/developer fee dedicated for public transportation could provide a viable option for dedicated funding.

   **Advantages:**
   - Current high rate of development means significant potential fee base.

   **Disadvantages:**
   - Administrative costs may be high.
   - This type of fee may not be considered as equitable as transportation specific fees, but public transportation is an important aspect of any community, especially newly developing communities.

2) Rental Car Tax – With Arizona’s growing population and development (especially in the Phoenix Metropolitan area), the state is attracting an increasing number of tourists and
visitors each year. Currently, no fee on rental cars dedicated to public transportation exists in Arizona.

**Advantages:**
- Tax base is large enough to create significant revenue without significant costs to the individual.
- Administrative costs would be fairly low.

**Disadvantages:**
- Tax may not be as equitable as transportation specific fees, but argument could be made that public transportation adds value to a community and attracts tourism.

### 5.3 INCREASE OF EXISTING DEDICATED FEES/TAXES

**1) Increased Vehicle Registration Fee** - Based on the researchers’ investigation, Arizona is underutilizing the vehicle registration fee as a funding source potentially for public transportation. Using information from the Federal Highway Administration’s Summary of State-Motor Vehicle Registration Fee Schedule, Arizona’s annual $8 vehicle registration fee is the lowest in the nation compared with rates for all 50 states and the District of Columbia. This registration fee is extremely low compared to the national average of $33.66 annually. Even if Arizona increased its current fee to $18 annually, it would still rank in the lowest fifth of the country for registration rates.

**Advantages:**
- Annual registration required ensures continued source of funding.
- Tax base is large enough to create significant revenue without significant costs to the individual
- Administrative costs would be fairly low.

**Disadvantages:**
- Revenue levels may fluctuate because of changing gas prices and changing demand.
- Acquiring legislative support for increases in fuel taxes may be difficult.
- The fuel tax is susceptible to uncertain future revenue due to increased fuel efficiency vehicles.

**2) Increased Motor Fuel Tax** – Despite the controversy over only using fuel taxes to fund transportation projects, increasing the motor fuel tax could be a significant and relatively simple funding method for public transportation in the State of Arizona. Using information from the Bureau of Transportation Statistics on State Motor-Fuel Tax Rates: 2004, Arizona’s $0.18/gallon tax rate ranks 12th lowest compared with rates for all 50 states and the District of Columbia. An additional $0.02 fee would change Arizona’s rank to 21st lowest, still in the top half of all states and the District of Columbia for the lowest gas tax rates.

**Advantages:**
- Tax base is large enough to create significant revenue without significant costs to the individual
- Administrative costs would be fairly low.
- This tax is highly equitable tax because only transportation users have to pay the tax.

**Disadvantages:**
- Revenue levels may fluctuate because of changing gas prices and changing demand.
- Acquiring legislative support for increases in fuel taxes may be difficult.
- The fuel tax is susceptible to uncertain future revenue due to increased fuel efficiency vehicles.
3) *Increased Sales Tax*- Increasing the state sales tax is a feasible option for public transportation funding because a very significant amount of revenue can be raised with a very small increase in tax.

**Advantages:**
- Tax base is large enough to create significant revenue without significant costs to the individual
- Administrative costs would be fairly low.

**Disadvantages:**
- Sales tax tends to be regressive in nature and not as equitable of a tax base because everyone is taxed regardless of transportation use.
- Acquiring legislative support for increases fuel taxes may be difficult.
- Sales tax is susceptible to uncertain future revenue due to economic fluctuations.

### 5.4 CONCLUSION

The population and transportation needs for the State of Arizona will continue to increase significantly into the future. Finding a dedicated revenue source is the most effective way of ensuring adequate funding for public transportation that will serve the needs of users. Researchers believe that implementation of one or more of the above potential options will lead to more revenue dedicated to public transportation for the State of Arizona.
APPENDIX A: Survey of State Funding for Public Transportation 2005

APPENDIX B: Public Transit Funding Survey Form

PART I — Responder Information

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<th>Name:</th>
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<tr>
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<td>Position:</td>
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<td>Phone Number:</td>
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PART II — Survey

As a continuation to the Bureau of Transportation Statistics’ annual *Survey of State Funding for Public Transportation 2005*, please answer the following questions regarding your state’s funding methods. If you would like to review your state’s responses to the original survey, please click *Survey of State Funding for Public Transportation 2005*. (To check or uncheck the boxes on questions 2 and 3, double click the gray box and change the default value.)

1) If funds from sources other than federal, state or local government are used, what is the typical or average annual amount, where do these funds come from, and how were you able to accomplish this arrangement?

2) Has your State transportation agency performed research on the topic of transit funding? Yes [ ] No [ ]

   If yes, please provide a point of contact through which we may obtain a copy.
   Name: _____________________   Phone Number: ________________   Email: __________________

3) Has your State used legislation to generate new funding mechanisms? Yes [ ] No [ ]

   If yes, please provide a point of contact through which we may obtain a copy.
   Name: _____________________   Phone Number: ________________   Email: __________________

Thank you for completing this survey!

Please return your completed survey by email to kate.ernzen@asu.edu
OR by fax to (480) 965-1769, Attention: Dr James Ernzen.
Dear State DOT Official:

We are undertaking research in order to identify the most effective ways to secure dedicated funding for our Public Transportation Division. We have commissioned Ms. Kate Ernzen to do a review of public transportation funding practices that have been employed around the nation. The costs and benefits of these practices will then be examined to determine if the funding methods of Arizona Department of Transportation’s (AZDOT) current Public Transportation Division could be improved. We will also be publishing and sharing the results as part of our FHWA funded research program.

One of the tasks of this project is an examination of all states in hopes of gaining a better understanding of the variety of funding methods used and how other State Transportation Agencies secure these funds. On May 1, 2006, the U.S. Department of Transportation Bureau of Transportation Statistics (BTS), in conjunction with the American Association of State Highway and Transportation Officials (AASHTO) and the American Public Transportation Association (APTA), published the Survey of State Funding for Public Transportation 2005. We have provided the link to this report in our survey for your convenience. In this report, each state detailed its current methods of public transportation funding. As a follow up to that report, we are asking a few additional questions to ascertain how each state went about securing funding through legislation and program development. It will greatly help our project if you could take a few minutes to complete and return the attached survey to Kate Ernzen at kate.ernzen@asu.edu.

Our desired target date for responses is on or before, **Friday, August 11, 2006**.

If you would like to receive a copy of the final report that will be published later this year please indicate who should receive the report and where it should be sent.

Thank you for your assistance.

Sincerely,

John Semmens
Project Manager
Arizona Transportation Research Center
Mail Drop 075R
phone 602-712-3137  fax 602-712-3400
e-mail jsemmens@dot.state.az.us
## APPENDIX D: Survey Contact List

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<th>Contact</th>
<th>Email</th>
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<tr>
<td>Alaska</td>
<td>Abe Levy</td>
<td><a href="mailto:Abe_levy@dot.state.ak.us">Abe_levy@dot.state.ak.us</a></td>
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</tr>
<tr>
<td>State</td>
<td>Contact</td>
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<tr>
<td>Missouri</td>
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<td>James Frierson</td>
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<td>Diane Lackey</td>
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<td>Robert Milburn</td>
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</tbody>
</table>
APPENDIX E: Model Legislation

ALASKA – Laws of Alaska 2004
http://www.gov.state.ak.us/omb/05_omb/MH_HB377bill.pdf

ARKANSAS - Senate Bill 441

CALIFORNIA – AB 1467

CALIFORNIA – San Diego Association of Governments – AB 713
http://info.sen.ca.gov/pub/93-94/bill/asm/ab_0701-0750/ab_713_cfa_930527_120723_asm_comm

COLORADO – Senate Bill 1

DELAWARE – Title 2, Chapter 20
http://www.delcode.state.de.us/title2/c020/index.htm#TopOfPage

FLORIDA – 2006 Statutes – Chapter 212
http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=Ch0212/SEC0606.HTM&Title=->2006->Ch0212->Section%200606#0212.0606

FLORIDA – 2006 Statutes – Chapter 337
http://www.leg.state.fl.us/Statutes/index.cfm?App_mode=Display_Statute&Search_String=&URL=Ch0337/SEC251.HTM&Title=->2006->Ch0337->Section%20251#0337.251

INDIANA – Sales and Use Tax
http://www.in.gov/legislative/iac/T00450/A00022.PDF

MAINE – Transit Bonus Payment Program
http://janus.state.me.us/legis/statutes/23/title23sec1807.html

MINNESOTA – Motor Vehicle Sales Tax Amendment
http://www.revisor.leg.state.mn.us/bin/getpub.php?pubtype=STAT_CHAP&year=current&chapter=16a#stat.16A.88.0

NEVADA – Impact Fees – 2003 SB 237
http://www.leg.state.nv.us/statutes/72nd/Stats200307.html#Stats200307page945
NEVADA – Senate Bill 440
http://www.leg.state.nv.us/73rd/bills/SB/SB440.pdf
NEVADA – Senate Joint Resolution 14
http://www.leg.state.nv.us/73rd/bills/SJR/SJR14.pdf

NEW MEXICO – House Bill 15 – GRIP
http://legis.state.nm.us/Sessions/03%20Special/bills/house/HB0015.html

NORTH DAKOTA – Senate Bill 2348

PENNSYLVANIA – Public Transportation Assistance Fund
http://www.legis.state.pa.us/cfdocs/legis/PN/public/BtCheck.cfm?txtType=HTM&sessYr=1997&sessInd=0&billBody=H&billTyp=B&billNbr=0357&pn=0401

PENNSYLVANIA – Transportation Impact Fees – House Bill 1719
http://www.legis.state.pa.us/CFDOCS/Legis/PN/Public/btCheck.cfm?txtType=HTM&sessYr=2005&sessInd=0&billBody=H&billTyp=B&billNbr=1719&pn=2187

RHODE ISLAND – Motor Fuel Tax – Title 31
http://www.rilin.state.ri.us/Statutes/TITLE31/31-36/31-36-20.HTM

VIRGINIA – Commonwealth Transportation Trust Fund – Section 58
http://leg1.state.va.us/cgi-bin/legp504.exe?000+cod+58.1-638

VIRGINIA – Regional Motor Fuel Tax
http://leg1.state.va.us/cgi-bin/legp504.exe?000+cod+58.1-1720

WISCONSIN – Vehicle Registration Fee
http://www.legis.state.wi.us/statutes/Stat0341.pdf