CHAPTER 12

FINDING THE MONEY

Federal Requirements

Federal Regulations\(^1\) state that the total cost of the investments in the plan cannot exceed the estimated funding available over the life of the plan. Specifically, the “funded” projects and services have to be within the projected revenues. Only these funded projects and services can be used to determine air quality conformity. The unfunded projects and services can be described in the plan, a category that the US Department of Transportation calls “illustrative.” That means these projects and services are included for information only.

The estimate of funds must account for maintenance of the existing and planned transportation system. The projected revenues need to be based on historic trends. The revenue projections can include new funds for which a track record exists. For example, if a gas tax increase has been periodically approved by the state legislature, it would be reasonable to assume future increases. But if in the past, approval of a local option sales tax did not occur, it would not be reasonable to assume that approval would be granted in the future.

The Importance of Financial Analysis

If you wanted to build a house you would determine how much you could afford to spend. It would be unwise to design a home that would cost $1 million if your income supports a home costing $200,000. In addition, any bank looking at your ability to make house payments will look at your other expenses – medical, food, utilities, and other debts. At the same time, your vision of your future home might incorporate some later add-ons if your income goes up. So plan big—as long as you know the fiscal realities and do not commit to more than you can afford.

The same requirements are placed on preparing a regional transportation plan.

- How much money can we reasonably expect to be available?
- What are our other expenses that will draw upon these resources?
- What new funds might we expect, and on what basis do we expect them?
- What would our desired transportation system cost, including added maintenance for major investments?
- If our transportation “wants” list adds up to more than our resources, what elements are we going to cut—at least until we find more money?

These questions are at the heart of a financially constrained transportation plan and are not much different than any household budget; but the plan deals with billions of dollars.

This chapter covers the sources of funds (revenue) and the outlay of these funds (expenses). It then looks at how the costs of the desired transportation investments stack up against our expected income, how we might make decisions about what gets done, and where we might look for new revenues to fund the rest of our transportation system. The bottom line is that to implement all the road corridors in Chapter 5 of this plan while maintaining and operating the total road system would require another $3.9 billion, while the expanded transit system presented in Chapter 6 would require another $1.5 billion to implement. Raising $5.4 billion over the next 25 years will require increases in fees or taxes. (These figures reflect inflation across time.)

Purpose of “Funding Transportation Needs”

In Spring 2009, the Community Planning Association of Southwest Idaho (COMPASS) commissioned a study to examine transportation funding issues in preparation for the update of Communities in Motion2, the regional long-range transportation plan for Ada and Canyon counties. Funding Transportation Needs examined financial assumptions and looked at anticipated inflation and growth of future revenues for future transportation improvements and maintenance. Federal rules require metropolitan transportation plans, such as Communities in Motion, to be fiscally constrained, meaning:

- Base revenues can only consider current sources, with reasonable assumptions for increases based on historic patterns.
- Project expenses must be inflated to the “year of expenditure.”
- The study must address maintenance of the existing transportation system.

This study focused on Ada and Canyon counties. It addresses funding and expenses for local roadways, state highways and public transit.

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2 Communities in Motion evaluated growth in Ada and Canyon counties and recommended roadway and transit services to meet the projected needs. Only part of the recommended system is funded. For more information, please visit http://www.compassidaho.org/prodserv/cim2035-update.htm.

A full report of Funding Transportation Needs can be viewed at http://www.compassidaho.org/documents/prodserv/reports/COMPASSfundingneeds.pdf
The Economic Setting

Unsettled economic times affect this financial outlook. Major issues include:

- Construction costs skyrocketed from 2003 to 2007, resulting in rapidly escalating construction and maintenance costs.
- High crude oil prices flattened fuel demand in 2008, resulting in flat federal and state revenues and increasing roadway and transit costs such as asphalt and fuel.
- Beginning in 2006, construction activity slowed, resulting in declines in local impact fee revenues and sales tax revenues.
- Starting in 2008, the housing crisis threatened local property tax revenues through dropping values and delinquencies in tax payments. Declines in auto sales and other retail activities reduced sales taxes and vehicle fees.
- The Federal Highway Trust Fund is depleted, with record federal budget deficits.

In the face of these and other uncertainties, the approach taken by the consultant was to evaluate ranges of probabilities for the forecast.

Roadway Revenue Assumptions

- Federal funding for roadway and transit will increase at minimum levels.
- The Idaho Transportation Department's share of Highway Distribution Account (HDA) funds will be fully committed to existing projects or matching federal grants. No changes to HDA allocation formulas were assumed.
- No change in the state and federal fuel tax rates.
- Modest increases in Idaho fuel usage at a rate of 0.9% per year—half the 1981-2007 average growth rate.
- Regional property tax revenues at an average rate of 2.3% each year.
- Impact fees increase 2.0% per year.
- Local option registration fees increase 4.0% per year.
- Local roads will rely more on local revenue and less on state revenue.
- Federal funding share of local roadway expenses will decrease from 11% to 8%.

Based on these assumptions, by year 2035, local roadway revenues (less state system revenue) could be approximately $231 million per year, up from approximately $115 million in 2010. Total roadway revenues in the two-county area, including state system, could total $318 million by 2035.
**Roadway Costs**

Key findings regarding updated *Communities in Motion* project costs include:

- Inflation has increased the cost of existing *Communities in Motion* projects from about $2.6 billion, in 2005 dollars, to $3.1 billion, in 2009 dollars.
- Short term (2010-2014) inflation rates are anticipated to be 2.8%.
- Long term (2015-2035) inflation rates are estimated to be 4.0%, consistent with Federal Highway Administration’s guidance.

- With forecasted inflation, the cost of building the corridors in *Communities in Motion* could be $7.1 billion over the life of the plan, with a 50% probability that costs would be higher.

- Local road maintenance and operations alone will likely cost about $190 million (annual) by 2035.
- The annual deficit for just the local road entities could be $200 million by 2035, with a cumulative deficit between $1 and $1.6 billion by 2035.
- By 2035 the total annual roadway funding deficit (including state and federal roads) could be up to $427 million.
- Given the uncertainty of any forecasting, the study concluded that within Ada and Canyon counties the cumulative deficit could range from $2.8 billion to $3.9 billion—with an 80% probability that it would be greater than $2.8 billion.
Transit Revenue Assumptions

- Revenues for local transit stem from federal and local sources, with minimal state transit funding.
- Federal funding accounts for about 40% of Valley Regional Transit’s (VRT) annual budget and is used for operations, preventative maintenance, capital expenditures, and other activities.
- Federal transit funds could escalate at a rate of 5.8% each year; however, after 2012, federal rules may prevent using federal funds for operating costs. In 2009 this amounted to 15% of operating costs—$1.7 million.\(^3\)
- Local government contributions and operating revenues (bus fares and advertising revenues) generated $8.5-$9.0 million in revenue in 2009.
- Local funds for transit would increase in the near-term to recover the lost revenues. Starting in 2011 it is assumed that local revenues increase at the rate of inflation plus the rate of local population growth.
- There would be no dedicated local-option revenue source for transit or roadway investment and operations.

Transit Costs

The study considered two levels of transit service above the current level:

- VRT’s High Growth Alternative would improve the regional bus system and ultimately support a rail system. This system would cost approximately $1.25 billion including capital through 2035, with an annual operating cost of $63.3 million in 2035 (with inflation). Capital costs would total $212.9 million with inflation through 2035—but this cost does not include regional rail construction.
- The Communities in Motion bus and rail system would provide rail service between Nampa and Boise. At full implementation, the system would cost $4.1 billion including capital through 2035, with an annual operating cost of $231.5 million in 2035 (with inflation). Capital costs would total $1.36 billion.\(^3\)

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\(^3\) The federal rules were changed in 1998 to eliminate federal coverage of most operating costs for urbanized areas with more than 200,000 people. This threshold was reached in the Boise/Meridian UZA after the 2000 Census. It is likely the 2010 Census will conclude that the Boise, Meridian, Nampa and Caldwell would be one urbanized area. As a result, all Section 5307 funding for operations after 2012 would be eliminated.
billion with inflation through 2035, including rail construction.

- The base or current level system was projected to grow with population and would total $840 million through 2035. Total costs would be $60.1 million in 2035 (with inflation). No rail or other high-capacity transit services would be implemented.

- The annual funding gap between Communities in Motion and current would be $253 million annually by 2035.

### Conclusions of the Study

#### Roadways

The future is a numbers game. With the major federal and state revenue sources not adjusted for a 4% inflation rate, the costs outpace the growth in revenue. Across time, the compounding of the difference in growth rates (revenue vs. costs) becomes critical. Local agencies will be taking in $231 million by 2035 under the “most likely” scenario. By that same year, local maintenance, equipment and administration will consume $237 million. Major capital costs for 2035 alone will be $193 million. When the Idaho Transportation Department (ITD) revenues are added, the total pot rises to $318 million by 2035, but the added State costs push total expenditures to $745 million—leaving a total roadway deficit of $427 million. Between 2009 and 2035, the cumulative deficit could reach $3.9 billion. Of that amount, around $1.62 billion would be local roadways.

This rising gap between forecasted revenues and costs is shown in two charts. The first shows the gap with ITD costs and revenues. The “zig-zag” in the early years represents the GARVEE (grant anticipation revenue vehicle) program. GARVEE is debt-financing of projects throughout Idaho, with a large portion being spent on I-84. The GARVEE bonds will be paid back with future federal funds. This payback has been subtracted from future revenue streams. The second chart shows just the local roadway side for Ada and Canyon counties.

#### Roadway Maintenance

As noted above, maintenance costs on the local roadways alone in Ada and Canyon will total $190 million in 2035. This expense was based on the approximate 3,500 lanes miles of local roads in Ada County and the 3,100 lane miles of local roads in Canyon County. Within the region there are another 1,440 lane miles of ITD roads. There are 266 bridges in Ada County, with another 284 bridges in Canyon County. These totals include local and ITD structures (20 feet or more in length). Of these, 30 are structurally deficient today and 47 are functionally obsolete. Structurally deficient means that a physical element of the bridge (abutments, piers, decks, webbing, etc.) is below accepted standards. Functionally obsolete means the bridge is inadequate to meet current travel demands, e.g., too narrow). Bridges can fall into both categories.  

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ITD has 2551 lane miles to maintain in District 3 alone—nearly 12,000 lane miles across Idaho. In addition, ITD has responsibility for 1,777 bridges. ITD has calculated that within the next 10 years, half of the state system bridges will be 50 years or older—at or beyond their useful life. Increasingly, these bridges will need investments such as deck replacement or even totally new structures (replace abutments and piers along with the deck). Brian Ness, ITD Director, has noted that the current pace of bridge replacement will require bridges to last 120 years—not a likely scenario.

The need to increase the percentage of funds spent on maintenance means that fewer funds will be available to widen roads or build new roads. The conservative estimate in Funding Transportation Needs was that just the local system maintenance needs would consume half the total revenue available for roads over the next 25 years. The crisis facing the State system led to removing most of the planned ITD corridors from the Funded category.

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Where Does The Money Come From?

The resources for transportation come from three general sources:

- Federal grants
- State-collected funds
- Local funds

These funds are not always available for any purpose; instead they are often restricted to specific activities. In general, some funds are limited to either roadways or public transportation.

Funds may be further limited to specific types of roads or public transportation. This is an important consideration when looking at the types of transportation we would like to have, but lack the resources. It is not always a simple matter to take the funds from other types of transportation.

Federal Funds

The federal government is a major funding source of transportation facilities and programs in the U.S. and its territories. Funding authorization comes from legislation approved every six years. The most recent legislation, Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), authorizes the federal surface transportation programs for highways, highway safety, and transit for the five-year period 2005-2009; it was signed into law on August 10, 2005, and replaced Transportation Equity Act for the 21st Century (TEA-21). Due to other federal priorities, reauthorization of SAFETEA-LU, which should have occurred in 2009, has been delayed. A “continuing resolution” by Congress has extended its terms. It is probable that SAFETEA-LU’s successor won’t be acted upon until late 2010 or even sometime in 2011.

For highways, the size of the federal highway budget is impressive. Note that the amounts authorized6 in the federal legislation are often larger than the obligation authority7 amounts. The latter amount is critical, since this is the maximum amount that may be obligated each year. The reason for this is to provide a cushion in case the revenues are not as robust as forecasted.

The withheld amount may be released at some time, if future revenues permit. Several key categories of funding for roadways are under the federal program. The authorizations by each category for Idaho are shown in Table 1.

The funding assumptions in Chapter 12 are tied to the corridor prioritizations in Chapter 5. Changes in the assumptions, including construction, equipment and operations costs, will affect what is financially feasible in this plan. Should federal or local funding not meet assumptions in this analysis or costs increase beyond the level assumed, fewer corridors could be improved. Therefore, there is no explicit or implicit guarantee that the corridors can be completed as shown without additional resources.

Note that construction costs have risen significantly since the cost estimates were developed in 2005. Revenues have not kept pace.

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6 Authorized Amount. Upper limit of the amount of funds that can be appropriated for a program established under legislation by Congress. More details about federal budgetary terminology can be found online at http://www.rules.house.gov/archives/glossary_fbp.htm

7 Obligation Authority. A “ceiling” on the amount of federal assistance that may be promised (obligated) during a specified time period. http://www.fhwa.dot.gov/safetealu/factsheets/oblim.htm
### Table 1-Authorized Funding for Federal Highway Programs – Idaho 8

*(In Millions)*

<table>
<thead>
<tr>
<th>Authorized Amount (National)</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tbody>
<tr>
<td>Idaho – By Funding Category</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interstate Maintenance</td>
<td>$35.5</td>
<td>$36.8</td>
<td>$37.4</td>
<td>$38.0</td>
<td>$38.6</td>
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<tr>
<td>National Highway System</td>
<td>$47.4</td>
<td>$49.4</td>
<td>$50.2</td>
<td>$51.0</td>
<td>$51.8</td>
</tr>
<tr>
<td>Surface Transportation Program</td>
<td>$36.1</td>
<td>$37.9</td>
<td>$38,291</td>
<td>$38.8</td>
<td>$39.5</td>
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<tr>
<td>Bridge Replacement &amp; Rehabilitation</td>
<td>$15.3</td>
<td>$15.3</td>
<td>$15.5</td>
<td>$15.8</td>
<td>$16.0</td>
</tr>
<tr>
<td>Congestion Mitigation &amp; Air Quality</td>
<td>$8.1</td>
<td>$8.4</td>
<td>$8.5</td>
<td>$8.6</td>
<td>$8.8</td>
</tr>
<tr>
<td>Recreational Trails</td>
<td>$1.1</td>
<td>$1.2</td>
<td>$1.3</td>
<td>$1.4</td>
<td>$1.4</td>
</tr>
<tr>
<td>Safety</td>
<td>$7.8</td>
<td>$6.9</td>
<td>$7.1</td>
<td>$7.2</td>
<td>$7.3</td>
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<tr>
<td>Rail-Hwy Crossings</td>
<td>$1.6</td>
<td>$1.8</td>
<td>$1.8</td>
<td>$1.8</td>
<td>$1.8</td>
</tr>
<tr>
<td>Border Infrastructure Program</td>
<td>$0.9</td>
<td>$0.9</td>
<td>$1.0</td>
<td>$1.2</td>
<td>$1.3</td>
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<td>Safe Routes To School</td>
<td>$0.9</td>
<td>$1.0</td>
<td>$1.0</td>
<td>$1.0</td>
<td>$1.0</td>
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<tr>
<td>High Priority Projects</td>
<td>$27.4</td>
<td>$27.4</td>
<td>$27.4</td>
<td>$27.4</td>
<td>$27.4</td>
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<tr>
<td>Equity Bonus</td>
<td>$76.4</td>
<td>$75.9</td>
<td>$87.7</td>
<td>$94.9</td>
<td>$94.9</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$258.6</strong></td>
<td><strong>$262.7</strong></td>
<td><strong>$277.1</strong></td>
<td><strong>$287.0</strong></td>
<td><strong>$289.8</strong></td>
</tr>
</tbody>
</table>

Some of these programs are targeted toward alternate modes of transportation or toward improved technology to reduce congestion or pollution. Others, notably the Surface Transportation Program, may be flexed9 to roadway construction/maintenance, pathway construction, transit or vanpool vehicle purchases, other transit capital needs, or limited transit operations costs. National Highway System funds may be used under limited circumstances for public transportation. In general, none of the above sources are reliable for ongoing support for public transportation operating costs. A detailed list of Federal Highway Administration programs is located at the end of this chapter.

Financial support for programs comes from the Highway Trust Fund (HTF) established in 1956. Tax revenues directed to the HTF are derived from excise taxes on highway motor fuel and truck related taxes on truck tires, sales of trucks and trailers, and heavy vehicle use. The current federal gasoline tax is 18.4 cents per gallon and 24.5 cents per gallon on diesel. On average, each penny of the federal motor fuel tax produces almost $1.8 billion in revenues annually. Fuel taxes are by far the largest part of HTF income, constituting 91% of its income in FY 2004.10 As noted later, this reliance on the volume of fuel sales can be a weakness.

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9 Flexed Funds are funds that can be moved from one category to another. There are some restrictions.
Federal funding for transit comes under the Federal Transit Administration (FTA) program. SAFETEA-LU provides a combination of trust and general fund authorizations that total $45.3 billion for public transportation for fiscal years 2005–2009 ($52.6 billion over the six year period 2004–2009). Just over 80% is derived from the dedicated Mass Transit Account, with only New Starts, Research and FTA Administrative funding coming from the General Fund. All funds, including the General Fund portion, are guaranteed, which means that the guaranteed annual levels are already “paid for” under Congressional budgetary rules. However, guarantees are always subject to change.

The table Table 2 on the next page shows the breakout of the FTA funding for Idaho transit programs from 2006 through 2009.

Similar to the federal highway funding, federal transit funds are broken into categories of funding. Some can be used in urbanized areas (UZAs)\(^\text{11}\) while other funds are intended for services outside the urbanized areas. All of the funding shown is under a formula basis: Idaho does not need to compete for these funds.

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\(^{11}\) Urbanized Area (UZA) – Area that contains a city of 50,000 or more population plus incorporated surrounding areas meeting size or density criteria as defined by the U.S. Census.
Table 2-Federal Transit Funding under SAFETEA-LU

<table>
<thead>
<tr>
<th>Year</th>
<th>Urbanized Formula (5307 and 5340)</th>
<th>Jobs Access/Reverse Commute (5316)</th>
<th>New Freedom (5311 and 5340)</th>
<th>Non-Urbanized (5310)</th>
<th>Elderly &amp; Persons with Disabilities (5310)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$6,106,144</td>
<td>$635,508</td>
<td>$310,456</td>
<td>$4,889,655</td>
<td>$537,815</td>
<td>$12,964,073</td>
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<tr>
<td>2007</td>
<td>$6,352,302</td>
<td>$663,139</td>
<td>$322,397</td>
<td>$5,071,595</td>
<td>$557,451</td>
<td>$13,470,082</td>
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<tr>
<td>2008</td>
<td>$6,888,822</td>
<td>$718,400</td>
<td>$359,408</td>
<td>$5,484,750</td>
<td>$596,724</td>
<td>$14,588,976</td>
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<tr>
<td>2009</td>
<td>$7,327,233</td>
<td>$757,544</td>
<td>$379,945</td>
<td>$5,796,196</td>
<td>$622,251</td>
<td>$15,454,565</td>
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</tbody>
</table>

Potential Regional Share (Non UZA Formula Based on 2000 Population Share)

<table>
<thead>
<tr>
<th>Year</th>
<th>Urbanized Formula (5307 and 5340)</th>
<th>Jobs Access/Reverse Commute (5316)</th>
<th>New Freedom (5311 and 5340)</th>
<th>Non-Urbanized (5310)</th>
<th>Elderly &amp; Persons with Disabilities (5310)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>$3,446,000</td>
<td>$198,000</td>
<td>$112,000</td>
<td>$958,000</td>
<td>$209,000</td>
<td>$4,923,000</td>
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<tr>
<td>2007</td>
<td>$3,584,942</td>
<td>$207,000</td>
<td>$117,000</td>
<td>$994,000</td>
<td>$217,000</td>
<td>$5,119,942</td>
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<tr>
<td>2008</td>
<td>$3,887,721</td>
<td>$224,000</td>
<td>$126,000</td>
<td>$1,075,000</td>
<td>$232,000</td>
<td>$5,544,721</td>
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<tr>
<td>2009</td>
<td>$4,135,087</td>
<td>$236,000</td>
<td>$133,000</td>
<td>$1,136,000</td>
<td>$242,000</td>
<td>$5,882,087</td>
</tr>
</tbody>
</table>

Section 5307 – Provides grants for UZAs for public transportation capital investments and operating expenses in areas under 200,000 population from the Mass Transit Account of the Highway Trust Fund. Operating Assistance for those urbanized areas that grew to be greater than 200,000 in population (such as the Boise UZA) or became part of a larger urbanized area is grandfathered in phases (allows 50% of the FY 2002 allocation to be used for operating assistance in FY 2006, 25% of the FY 2002 allocation in FY 2007, and completely phased out by FY 2008). A new Small Transit Intensive Cities formula was established for urbanized areas under 200,000 that provide more service per capita than do other comparable areas.

Section 5309 – Provides funding through a discretionary grant program. Funds are not awarded under formula but must be sought in a competitive process—either through an administrative process with FTA or—more commonly—through a legislative process with the U.S. Congress determining the awards. Over the last several years, Idaho transit agencies, including those in the region, have been successful in obtaining up to $4 million per year to fund bus purchases, build bus facilities, provide preventive maintenance, purchase vanpool vehicles, build park-and-ride lots, and purchase other equipment. Section 5309 funds cannot be used for operational costs.


National Funding for Section 5309 Program

<table>
<thead>
<tr>
<th>Year</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tbody>
<tr>
<td>Total 5309</td>
<td>$822</td>
<td>$856</td>
<td>$928</td>
<td>$984</td>
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</tbody>
</table>
Section 5311 – Provides capital and operating assistance for rural and small urban public transportation systems. Provides formula capital and operating grants to states for services in other-than-urbanized areas.

Section 5310 – Provides funding through a formula program to increase mobility for the elderly and persons with disabilities. Funds are allocated by formula to the states for capital costs of providing services to elderly persons and persons with disabilities. The Idaho Transportation Department awards these funds on a competitive basis each year.

Section 5316 – Provides funding for local programs that offer job access and reverse commute services to provide transportation for low income individuals who may live in the city core and work in suburban locations. Formula allocations are based on the number of low-income persons, with 60% of funds going to designated recipients in areas with populations over 200,000. 20% of funds go to areas under 200,000, with 20% of funds for non-urbanized areas.

Section 5317 – Provides funding to encourage services and facility improvements to address transportation needs of persons with disabilities that go beyond those required by the Americans with Disabilities Act. Provides a new formula grant program for associated capital and operating costs. Funds are allocated through a formula based upon population of persons with disabilities. States and designated recipients must select grantees competitively. Projects must be included in a locally-developed human service transportation coordinated plan beginning in FY 2007.

Section 5340 – Provides funding under New Growing States and High Density States Formula factors. One-half of the funds are made available under the Growing States factors and are apportioned by a formula based on state population forecasts for fifteen years beyond the most recent US Bureau of the Census; amounts apportioned for each state are then distributed between urbanized areas and rural areas based on the ratio of urban/rural population within each state. The High Density States factors distribute the other half of the funds to states with population densities in excess of 370 people per square mile. These funds are apportioned only to urbanized areas within those states.

While federal funds for transit are important, they need to be kept in perspective. Although SAFETEA-LU provided a significant increase for public transportation programs in Idaho, the total federal transit funding is only 8% of the total federal funding available to roadways. Also, most systems rely on dedicated local or state funds for operating costs and for local match of federal capital funds. In part, this is due to recent (1998) federal rules that prohibit the use of federal funds to cover operating costs in UZAs greater than 200,000 in population. As of 2002, the Boise UZA was determined to be larger than 200,000.
In the U.S. in 2008, federal funds accounted for just 7% of the operating revenues for urbanized transit systems. Federal funds were 40% of the capital expenses for 2008. Local funds accounted for 30% of the operating expenses and 47% of the capital expenses.\textsuperscript{13}

**State-Collected Funds**

Federal funds are of great importance to transportation, but they are not the largest funding source. State-collected funds are the single largest source of funds for transportation. There are two categories of state-collected funds: Highway Distribution Account (HDA) and state sales taxes distributed to local governments.

**Highway Distribution Account**

Established under the Idaho Constitution in 1941, the Highway Distribution Account (HDA) is the state counterpart of the national Highway Trust Fund. It has been a mainstay of roadway development and maintenance. An important aspect of the HDA is its constitutional restriction to roadway construction and maintenance—not general transportation.

The Idaho Constitution\textsuperscript{14} limits fuel taxes and vehicle registration fees to roadway purposes. Court tests of this restriction, more recently concerning use of gas taxes to remediate contamination by leaking underground tanks, have upheld this provision.

The fuel tax was last increased in 1996, when it was increased by 4 cents per gallon to its current level of 25 cents per gallon.

<table>
<thead>
<tr>
<th>Revenue Sources</th>
<th>2000</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel Taxes</td>
<td>$201</td>
<td>$201</td>
<td>$209</td>
<td>$210</td>
<td>$213</td>
<td>$223</td>
<td>$219</td>
<td>$205</td>
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<tr>
<td>Other Fees/Taxes</td>
<td>$94</td>
<td>$91</td>
<td>$92</td>
<td>$99</td>
<td>$102</td>
<td>$108</td>
<td>$108</td>
<td>$106</td>
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<tr>
<td><strong>Total Revenue.</strong></td>
<td>$295</td>
<td>$293</td>
<td>$301</td>
<td>$309</td>
<td>$315</td>
<td>$331</td>
<td>$327</td>
<td>$312</td>
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</table>

<table>
<thead>
<tr>
<th>Distribution</th>
<th></th>
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<td>Local Roads</td>
<td>$113</td>
<td>$111</td>
<td>$113</td>
<td>$117</td>
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<td>$127</td>
<td>$124</td>
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<td>Law Enforcement</td>
<td>$15</td>
<td>$15</td>
<td>$15</td>
<td>$15</td>
<td>$16</td>
<td>$17</td>
<td>$16</td>
<td>$16</td>
</tr>
<tr>
<td>ITD</td>
<td>$168</td>
<td>$166</td>
<td>$170</td>
<td>$175</td>
<td>$179</td>
<td>$189</td>
<td>$186</td>
<td>$178</td>
</tr>
</tbody>
</table>


\textsuperscript{14}Constitution of the State of Idaho. Article VII-Finance and Revenue, Section 17 – Gasoline Taxes and Motor Vehicle Registration Fees to be expended on Highways. URL: [http://www3.state.id.us/cgi-bin/constretr?sctid=003070717.K](http://www3.state.id.us/cgi-bin/constretr?sctid=003070717.K)
Based on inflation since 1996, a 2005 study conducted on behalf of the Idaho Transportation Department’s Forum on Transportation Investment concluded that if Idaho had adjusted the 25 cents per gallon tax to reflect cost changes and increases in vehicle miles of travel, the fuel tax would need to be at least 38 cents per gallon in 2004 to have the same buying power it had in 1996.

As depicted above in Figure 4, revenues of the HDA have been fairly flat during the past ten years. But while the revenue picture was flat, the cost of construction escalated a great deal. The cost of materials (steel, asphalt, concrete, etc.) was especially hard hit, with estimated increases of 13% over 2004 prices. Rising energy prices and increased demand both at the national and international levels lead to the dramatic upswing in prices. Note that this same inflation affects the buying power of the Federal Trust Fund, also heavily reliant on a unit fuel tax. Note that prices slumped after 2006 and dropped significantly as the economy cooled off in early 2009. Figure 6 depicts the change in transportation construction prices since 1990.

While the HDA has been a remarkably stable source, improvements in fleet efficiency and changes in vehicle technology have affected its income stream. In addition, the use of a “unit tax” on fuel (a fixed number of pennies per gallon) and a fixed registration fee have degraded the buying power of the revenues. Table 3 shows the revenues accruing to the HDA.

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15 Forum on Transportation Investment – a special committee set up by ITD to investigate future funding needs in transportation throughout the State of Idaho. URL: http://itd.idaho.gov/info/ti_forum/charter.htm
16 Buechner, William, American Road & Transportation Builders Association (ARTBA), November 15, 2005. URL:http://www.artba.org/economics_research/recent_statistics/prod_price_index/prod_price_index.htm
17 Source: Washington State Department of Transportation.
and its distribution (totals may differ due to rounding). To put the HDA funds into perspective, the $312 million from HDA (2009) is greater than the federal highway and transit funds allocated to Idaho.

The reliance on the state fuel tax and its lack of growth over the past 10 years concerns ITD, which commissioned the Forum on Transportation Investment\(^\text{18}\) during 2005 to look at the long term financial prospects for transportation and to recommend options. Forum participants concluded “…that Idaho’s current transportation revenue structure will not meet the pressing transportation funding needs over the next thirty years. The forum found that no single revenue stream could be counted on to adequately address both state and local needs and all modes of transportation. In fact, the forum’s analysis found that multiple sources would be necessary to even come close to meeting funding requirements.”\(^\text{19}\)

**Other Sources of Funding**

The other source of funds collected and distributed by the State of Idaho for transportation is the sales tax. More than $20 billion in taxable sales and uses occurred in 2004: at the 6% sales tax rate in effect in 2009 over $1.2 billion in sales taxes were collected. This was down from $1.34 billion collected in 2008. In FY 2009, 11.50% of Idaho’s sales tax revenue was distributed to local governments. This was done through a complicated formula.\(^\text{20}\) This put almost $138 million into local government coffers. The sales tax revenues go into the general revenue of cities, counties and highway districts. Unlike the HDA, sales tax distributions are not restricted as to use. They can be used for any public purpose authorized under Idaho law.

**Local Funding**

The third broad source of transportation funds are those collected at the local level. Local funds are shown separated into roadway and transit funding categories.

**Summary of Local Roadway Funding**

- Roadway revenues include
  - Property Taxes
  - Impact Fees
  - Registration Fees

Between 2004 and 2008, an average of $103.5 million was spent each year on local roads—roads not on the state highway system. Local funds are a significant portion of the revenues constituting more than half the resources. State-generated funds account for another 37% of the funds, with federal sources amounting to just 4%.

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\(^{19}\) Report and Recommendations, Forum on Transportation Investment: page 3

Property Tax

The single largest source of local funds is the property tax. As shown in the chart “Sources of Local Funds: 2004 – 2008,” property taxes made up 57% of the local road revenue base from 2004-2008. There is wide variation between counties, with Ada County (Ada County Highway District) relying on property taxes for 53% of its local revenues, while Canyon County covers 71% of its local revenues with property taxes.

The mainstay for local governments in Idaho is the property tax. Even among taxes—never a popular topic—it has been a controversial revenue source, with multiple attempts by the legislature and citizen initiatives to remedy problems. A study by the Idaho Tax Commission using 2007 data concluded that, when compared to national averages, Idaho was almost 30% under the average in terms of property taxes as a percent of income. On the flip side, Idaho was 50% above the national average in terms of motor fuel taxes as percent of income.21

Under current Idaho code, the property tax is one of the few tax resources available to local governments. No local option tax exists except for a specialized local option tax discussed below under registration fees and a very limited local option tax for resort cities in Idaho.

The amount of property tax that can be budgeted by each taxing district (a city, county, highway district, school district, or other entity legally empowered to levy a property tax) is limited under Idaho Code.22 This law generally limits an increase to no more than 3% of the previous year’s levy, not including any increase based on new construction or annexations. The law allows a larger increase if approved by a supermajority (more than 66.66%) of the voters.

The revenues raised by property taxes are a significant portion of all the roadway entities. The Table 4 below summarizes the property tax revenues used for roadways at the county level. Variations in property tax may be greater when the road functions are within a general purpose local government versus a stand-alone highway district.

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22 Idaho Code Title 63, Revenue and Taxation, Chapter 8. Levy and Apportionment of Taxes. URL: http://www3.state.id.us/cgi-bin/newidst?sctid=630080002.K
Impact Fees

Impact fees are a relatively new revenue source, particularly in Idaho. Impact fees are assessed on specific new development, often at the time a building permit is issued. They must be tied by an analysis to a specific impact on transportation or some other public infrastructure. In the trades legally, this tie is termed a “rational nexus.”

Existing deficiencies and on-going operations and maintenance costs are not eligible for impact fees—at least not in the eyes of courts which have considered the legitimacy of impact fees. When properly implemented, impact fees can be an equitable and an effective way to fund capital needs—including new roads, widened roads, and other facilities—by identifying the need for these facilities as a result of growth. (Note that school facilities are not one of the eligible uses for impact fees.) Transit capital needs could also be covered by impact fees if the Idaho Code (Section 67-8203(24)) were amended to list transit as an eligible expense.

Idaho Code\textsuperscript{23} defines the approach for impact fees in the state. It is a complex process. Among the requirements the law includes:

- Levels of service must be defined against which the developments may be considered.
- Individual assessments must be permitted under a defined process.
- Refunds must be made if the fees are not spent on eligible projects within eight years.
- Eligible projects must be defined in a capital improvement plan tied to a defined growth plan with a horizon no longer than twenty years.

\textsuperscript{23} Idaho Code Title 67, State Government and State Affairs. Chapter 82 Development Impact Fees. URL: http://www3.state.id.us/idstat/TOC/67082KTOC.html

Table 4- Property Tax Funds Used for Roadways by County

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ada</td>
<td>$15,951,066</td>
<td>$21,158,403</td>
<td>$22,797,735</td>
<td>$24,946,582</td>
<td>$27,373,600</td>
<td>$29,559,358</td>
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<tr>
<td>Canyon</td>
<td>$4,767,080</td>
<td>$6,176,687</td>
<td>$6,903,486</td>
<td>$7,663,086</td>
<td>$8,275,026</td>
<td>$9,134,933</td>
</tr>
<tr>
<td>Two County</td>
<td>$20,718,146</td>
<td>$27,335,090</td>
<td>$29,701,221</td>
<td>$32,609,668</td>
<td>$35,648,626</td>
<td>$38,694,291</td>
</tr>
<tr>
<td>Boise</td>
<td>$3,382</td>
<td>$134,633</td>
<td>$235,570</td>
<td>$143,975</td>
<td>$150,038</td>
<td>$14,185</td>
</tr>
<tr>
<td>Elmore</td>
<td>$854,073</td>
<td>$1,000,360</td>
<td>$1,022,628</td>
<td>$1,172,027</td>
<td>$1,438,436</td>
<td>$1,190,455</td>
</tr>
<tr>
<td>Gem</td>
<td>$39,436</td>
<td>$497,120</td>
<td>$399,001</td>
<td>$557,193</td>
<td>$364,039</td>
<td>$302,469</td>
</tr>
<tr>
<td>Payette</td>
<td>$602,082</td>
<td>$621,451</td>
<td>$740,818</td>
<td>$835,916</td>
<td>$1,385,411</td>
<td>$1,760,854</td>
</tr>
<tr>
<td>Surrounding Counties</td>
<td>$1,498,973</td>
<td>$2,253,564</td>
<td>$2,398,016</td>
<td>$2,709,111</td>
<td>$3,337,924</td>
<td>$3,267,963</td>
</tr>
</tbody>
</table>
It is this complexity that deters more jurisdictions from implementing impact fees. In the six county region of Communities in Motion, only the Ada County Highway District has a portion of its revenues from impact fees, generating virtually 100% of the impact fees collected regionally between 2004 and 2008. Over the past five years, impact fees accounted for 17% of ACHD’s revenue and generated 20% during its peak in 2005, when they totaled $14.5 million. In 2008, impact fees fell to $12.8 million, and ACHD’s 2010 budget showed only $6 million projected. The power of this financial tool appeals to citizens, who frequently demand that “growth pay for itself.” Outside of Ada County, other cities and highway districts elect to use “exactions.” These are specific requirements put on a development and may include building roads, improving intersections or other measures tied to specific impacts identified for a proposed development.

Registration Fees

The state collects registration fees that help fund the Highway Distribution Account. But local governments have a local option registration fee available under Idaho Code Title 40, Chapter 8. Any county can pass such a local option registration fee by a simple majority of the votes cast in an election, with the amount of the fee to be no more than twice the amount authorized statewide under Idaho law. As with the state-collected registration fee, the local option version can only be used for roadways.

Unlike the impact fee, a registration fee is fairly simple revenue to collect and manage. There is no requirement for a rational nexus, a twenty-year capital improvement plan, or other features called for by the impact fee legislation. ACHD generated $19.8 million from 2004-2008—about 6% of its budget. In November 2008, voters approved a doubling of the registration fee, so this source will likely exceed impact fees until development rebounds. Canyon, Elmore and Gem counties have also implemented such fees.

Geographic Distribution of Funding

The caution in presenting funding at a regional level is that dollars are not equally available by each jurisdiction. Of the total local dollars collected between 2004 and 2008, 77% were collected in Ada County. Ada County’s share of the regional population was 59% according to the U.S. Census Bureau. Ada County’s share of State funding from HDA and other sources amounted to 54% of the regional total from 2004-2008, so the difference in its resources is not attributable to flaws in the HDA distribution formula.

So what is the reason that the Ada County Highway District (ACHD) has a higher percentage of the region’s locally derived funds? It lies in three areas:

- implementation of impact fees
- implementation of local option registration fees

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• a diverse and valuable property tax base.

Note that ACHD does not require off-site road improvements any more from developers. These exactions were traded off in the early 1990s for the more equitable impact fee program. A few years later—and after two unsuccessful votes—ACHD obtained voter approval for a local option registration fee. Elimination of these two sources would represent as much as a $20 million cut in ACHD’s budget—about one-third of its local revenue collection. It should be noted that costs for roadway construction is substantially higher in Ada County due to high land values, difficult construction environments (high traffic and proximity of development) and urban standards such as sidewalks and bicycle lanes.

The other challenge is similar to that facing the Highway Distribution Account. The revenue base for regional local roads is not responsive to growth. The chart above depicts the total revenue base by county for local roads, so it includes local resources, state-generated funds, and federal. While the total revenue base has increased 25% since 2000, much of that increase was driven by local sources. State derived revenue only increased 17%, while federally derived revenue fell by 25%. (Note that this statistic does not include ITD expenditures.) Declines in property values and impact fees will erode the revenue base for local agencies.

The 2006 plan noted the run-up in project costs. Major culprits were energy, asphalt, steel and concrete—all elements in road construction. Cost of land needed for rights-of-way had increased far more dramatically with raw land prices through the Treasure Valley area nearing and, in many cases, exceeding $100,000 per acre. Many of these costs, especially land costs, have been reduced by the economic slump, but the question is whether a rebound in global, national and local economies will trigger a resurgence in materials, labor and land costs.

**Transit Funding**

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**Communities in Motion – Chapter 12 - Page 19 of 34 – May 10, 2010**
Transit revenues are shown separately from roadways since in Idaho there is no separate funding mechanism for transit. While road entities—city, county or highway district—enjoy property tax powers, local vehicle registration fee options, and access to the Highway Distribution Account, the funding options for transit are more restricted:

- Farebox
- Local government contributions
- Federal funds
- Other (interest, advertising)

**Fares**

Fares paid by transit riders once were either cash or tokens. While cash is still used, modern systems have moved from tokens to a variety of pass cards and even smart cards, which can be recharged via the Internet. These are much like a debit card to buy services on bus, rail and ferry systems.

The bottom line is that whether cash, tokens or smart cards are used, there are no transit systems in the U.S. which fund themselves 100% with fares. In 2008, U.S. transit services recovered 31% of their operating costs out of fares.26 Not surprisingly, larger systems serving 1 million or more persons had a higher recovery ratio at 35% than smaller regions which recovered around 18% on average. Heavy rail and commuter rail systems, generally operating in the very largest of cities, did best, recovering 61% and 47% of their costs, respectively. Light rail systems dropped to 26%—close to the 28% recovered in fixed-route bus systems. Demand responsive systems, which frequently are used for persons with disabilities, elderly passengers and in very low density settings, recovered only about 10% of their costs through fares.

Larger systems do come closer to supporting themselves with fares: the catch is that their overall tax support is actually greater per capita than smaller systems with lower fare recovery.

Valley Regional Transit recovered 10-11% of its operating expenses between 2004 and 2008. While its cost per service hour are fairly typical for cities of similar size, trips per service hour are about half of “peer” communities. The table Table Shows shows some statistics from mostly western metro areas ranging in size from 87,000 to 1.7 million. The larger areas would be more similar to this region when it is 1.046 million people. The region ranks at or near the bottom in most indicators.

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### Table 5-Service-Area Performance Statistics - Fiscal Year 2007

<table>
<thead>
<tr>
<th>#</th>
<th>AREA</th>
<th>Population</th>
<th>Farebox Ratio *</th>
<th>Operating $ per Capita</th>
<th>Operating $ per Trip</th>
<th>Trips/ Capita</th>
<th>Revenue Hours/ Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Iowa City, IA**</td>
<td>85,247</td>
<td>12.5%</td>
<td>$90.27</td>
<td>$1.41</td>
<td>64.0</td>
<td>1.7</td>
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<td>2</td>
<td>Fort Collins, CO</td>
<td>118,652</td>
<td>14.4%</td>
<td>$64.56</td>
<td>$4.43</td>
<td>14.6</td>
<td>0.9</td>
</tr>
<tr>
<td>3</td>
<td>Abilene, TX</td>
<td>107,051</td>
<td>12.6%</td>
<td>$23.49</td>
<td>$4.22</td>
<td>5.6</td>
<td>0.7</td>
</tr>
<tr>
<td>4</td>
<td>Springfield, IL</td>
<td>132,100</td>
<td>9.3%</td>
<td>$65.07</td>
<td>$6.49</td>
<td>10.0</td>
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<tr>
<td>5</td>
<td>Topeka, KS</td>
<td>122,377</td>
<td>13.0%</td>
<td>$55.01</td>
<td>$3.93</td>
<td>14.0</td>
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<td>6</td>
<td>Boise/Nampa, ID</td>
<td>272,625</td>
<td>11.3%</td>
<td>$29.80</td>
<td>$7.39</td>
<td>4.0</td>
<td>0.4</td>
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<tr>
<td>7</td>
<td>Salem, OR</td>
<td>206,500</td>
<td>10.1%</td>
<td>$128.14</td>
<td>$4.74</td>
<td>27.0</td>
<td>1.5</td>
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<tr>
<td>8</td>
<td>Reno, NV</td>
<td>319,977</td>
<td>23.0%</td>
<td>$103.88</td>
<td>$3.66</td>
<td>28.4</td>
<td>1.2</td>
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<tr>
<td>9</td>
<td>Lincoln, NE</td>
<td>241,167</td>
<td>15.0%</td>
<td>$37.44</td>
<td>$4.83</td>
<td>7.8</td>
<td>0.6</td>
</tr>
<tr>
<td>10</td>
<td>Eugene, OR</td>
<td>272,272</td>
<td>16.7%</td>
<td>$119.87</td>
<td>$3.29</td>
<td>36.4</td>
<td>1.3</td>
</tr>
<tr>
<td>11</td>
<td>Stockton, CA</td>
<td>564,539</td>
<td>12.7%</td>
<td>$57.10</td>
<td>$8.12</td>
<td>7.0</td>
<td>0.5</td>
</tr>
<tr>
<td>12</td>
<td>Madison, WI</td>
<td>237,433</td>
<td>20.2%</td>
<td>$188.54</td>
<td>$3.46</td>
<td>54.6</td>
<td>2.0</td>
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<tr>
<td>13</td>
<td>Bakersfield, CA</td>
<td>437,236</td>
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<td>$44.41</td>
<td>$3.03</td>
<td>14.6</td>
<td>0.7</td>
</tr>
<tr>
<td>14</td>
<td>Lansing, MI</td>
<td>276,898</td>
<td>12.7%</td>
<td>$117.69</td>
<td>$3.05</td>
<td>38.6</td>
<td>1.4</td>
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<tr>
<td>15</td>
<td>Spokane, WA</td>
<td>334,857</td>
<td>13.2%</td>
<td>$151.06</td>
<td>$5.00</td>
<td>30.2</td>
<td>1.8</td>
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<tr>
<td>16</td>
<td>Tacoma, WA</td>
<td>732,435</td>
<td>16.0%</td>
<td>$130.46</td>
<td>$6.58</td>
<td>19.8</td>
<td>1.2</td>
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<tr>
<td>17</td>
<td>Albuquerque, NM</td>
<td>498,000</td>
<td>11.1%</td>
<td>$75.11</td>
<td>$3.90</td>
<td>19.2</td>
<td>0.8</td>
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<tr>
<td>18</td>
<td>Tucson, AZ</td>
<td>532,000</td>
<td>16.4%</td>
<td>$105.34</td>
<td>$3.08</td>
<td>34.2</td>
<td>1.5</td>
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<td>19</td>
<td>Salt Lake City, UT</td>
<td>1,744,417</td>
<td>14.0%</td>
<td>$94.84</td>
<td>$4.00</td>
<td>23.7</td>
<td>0.9</td>
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<tr>
<td>20</td>
<td>Austin, TX</td>
<td>1,012,638</td>
<td>8.6%</td>
<td>$134.66</td>
<td>$4.01</td>
<td>33.6</td>
<td>1.4</td>
</tr>
<tr>
<td>21</td>
<td>Chattanooga, TN</td>
<td>155,554</td>
<td>25.6%</td>
<td>$87.31</td>
<td>$4.61</td>
<td>18.9</td>
<td>1.3</td>
</tr>
<tr>
<td>22</td>
<td>Portland, OR</td>
<td>1,253,502</td>
<td>22.9%</td>
<td>$269.99</td>
<td>$3.36</td>
<td>80.3</td>
<td>2.2</td>
</tr>
<tr>
<td></td>
<td>Average</td>
<td>400,189</td>
<td>14.8%</td>
<td>$90.67</td>
<td>$4.44</td>
<td>24.1</td>
<td>1.1</td>
</tr>
</tbody>
</table>

**Federal Funds**

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Federal funds are made available to the region out of the Federal Transit Administration program. As noted above, these funds would amount to nearly $6 million per year for the region by 2009. Under the federal rules, funds under the Section 5307 program described above can be used to cover 50% of the operating costs not covered by fares. If the operating costs were $1,000,000, and $200,000 in fares were collected, up to $400,000 of federal funds could be used to offset the operating loss.

Note that the federal funds can be used to cover capital costs such as vehicle purchases, major maintenance, and facility construction. Federal funds also can be used for operating costs outside the designated urbanized area--western Canyon County and any services in Boise, Gem, Payette, or Elmore counties.

In 1998, the federal rules were changed to disallow federal funds being used to cover operating costs. Operating costs include drivers’, dispatchers’ and managers’ wages, fuel, insurance, utilities, marketing and other non-capital expenses. Without a series of waivers to this rule, the Boise/Meridian UZA would not have been able to use federal funds for operating costs for most of the decade. The Nampa UZA is likely to be deemed part of the Boise-Nampa UZA in 2012, after the 2010 Census is analyzed.

This means that the operating costs for bus services covering nearly 500,000 people will be ineligible for federal operating assistance. That would require several million more dollars in local public funds.

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fare Revenues</td>
<td>$822,604</td>
<td>$753,682</td>
<td>$706,326</td>
<td>$918,925</td>
<td>$960,287</td>
</tr>
<tr>
<td>Local Funds</td>
<td>$2,656,814</td>
<td>$3,085,722</td>
<td>$2,648,826</td>
<td>$3,887,403</td>
<td>$5,281,288</td>
</tr>
<tr>
<td>Other</td>
<td>$45,168</td>
<td>$67,105</td>
<td>$64,388</td>
<td>$198,697</td>
<td>$101,705</td>
</tr>
<tr>
<td>Total Operating Funds</td>
<td>$7,410,347</td>
<td>$7,732,430</td>
<td>$7,397,579</td>
<td>$8,124,056</td>
<td>$8,841,768</td>
</tr>
</tbody>
</table>

### Local Funds

If fares do not cover the costs of operating transit, where do the funds come from? For most areas, local funds are the main source of local match and operating expenses. As shown above in Table 6, the urbanized area transit system received $5.3 million in local funds in 2008, mostly from the City of Boise.

Local governments can only provide funds for transit out of their general funds, which are based on property taxes, distributions from the state-collected sales tax and miscellaneous fees. Since the general fund...
is also used to cover costs for police, fire protection, parks, libraries and other government services, competition for the general fund is strong.

**How are projects budgeted?**

A plan lays out a long-term vision of where the region is going—or perhaps could go—along with goals and strategies to get there. It is similar to a set of plans drawn up for the house discussed at the start of this chapter. The plan is implemented over the years in a series of programs that take the available funding and allocates them for specific projects. Think of a house that can be built in various stages; you would want the basics to be done early, say a kitchen, long before you might want to build a swimming pool.

Transportation program budgets are prepared every one to two years and maintain a five to six year horizon of projects key to priorities.

Some of the key programming documents in this region include:

- **Transportation Improvement Program (TIP).** The TIP is required of metropolitan planning organizations (MPOs) under federal regulation. Any transportation project using federal funds or which is “regionally significant” must be included. No federal funds can be spent on these types of projects unless they are included in the TIP. A TIP is a major implementation tool for the plan, since any project in the TIP must be consistent with the adopted plan.

- **State Transportation Improvement Program (STIP).** State transportation agencies such as the Idaho Transportation Department must prepare a document similar to the TIP that covers statewide projects. Within the planning areas of each MPO, the STIP and TIP must mirror each other. That means that the projects included in each document must show the same scope and costs for each project. Neither document can contain a project not contained in the other. This coordination is essential to ensure that neither the MPO nor the State can force a project through without the other’s agreement.

- **Capital Improvement Program (CIP).**

  (This type of document may go by other names such as a Five-Year Work Program). There are many projects that do not involve federal funding or occur on regionally significant corridors. Many transportation agencies, including cities, counties and highway districts, prepare CIPs that budget funds for street projects such as construction, widening, bridge reconstruction, traffic signals,

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28 Regionally Significant - regionally significant projects involve new construction of or additional lanes of travel on principal arterials, expressways and freeways or fixed-guideway transit systems such as rail or bus rapid transit. The expanded definition can be located at URL: http://www.communitiesinmotion.org/Documents/datareports/RegionallySignificantDefinitions.pdf
roadway reconstruction, overlays, etc. A Capital Improvement Plan is required by Idaho law in order to collect development impact fees, and has a time horizon of up to 20 years. Depending on its time horizon, a CIP may be either a mid-range or a long-range capital planning document. In the case of ACHD, its CIP serves as a long-range (20 years) planning document, while its FYWP serves as a mid-range (7 years) planning document. There are often short-term (five to six years) budgetary documents although some agencies, including ACHD, use their CIP as a longer range planning tool.

- **Transit Development Program (TDP)**: A TDP is the transit equivalent of a roadway CIP. It is more detailed than a twenty-year plan and lays out a budget for implementing new services in accordance with the plan, programs for replacement and new vehicles, other equipment and facility construction.

### Cost of the Transportation System

Much of this chapter addresses the available resources for implementing transportation projects. While the pool of available dollars is certainly large, it needs to be viewed in the context of what it costs to build, operate and maintain transportation systems. The funds shown on the second page of this chapter regarding the forecast from 2009 to 2035 are not totally available for major capacity projects. In fact, most of the resources for will go into maintenance and operations.

#### Roadways

With the deduction of minor capital items, including construction and widening of collector roads, signal projects, and intersection improvements, the available funding drops even more, as shown above.

With construction, rights-of-way, structures and preliminary design and studies, the total cost of the major corridors in *Communities in Motion* within Ada County and Canyon County was estimated at $2.63 billion. The cost of the corridors in the Partnering Counties totaled another $219 million, bringing the total roadway corridors tab to $2.85 billion—or $628 million more than the maximum amount of revenues available. Cost inflation since 2005 would raise the Ada and Canyon corridors to $3.13 billion.

The challenge across the next twenty-five years grows with inflation. As noted in the report, *Funding Transportation Needs*, many of the financing mechanisms for roadways are not inflation.
sensitive. With a 4% inflation rate assumed for most of the period between now and 2035, the deficit between revenues and roadway needs will grow. The cumulative deficit could be as high as $3.9 billion and will certainly be more than $2 billion. Total costs for state and local road maintenance, administration and capital needs could near $10.1 billion across the next 25 years. Revenues for this period would total $6.2 billion.

This forecast of revenues is based on a number of assumptions. Perhaps the most critical concerns revenues based on gas taxes. The analysis “optimistically” assumed fuel consumption would increase at 0.9% per year—half the rate of growth seen over the past 20 years. It also assumed no increase in the federal or state gas tax rates of 18.3 and 25 cents per gallon. A gas tax rate set to automatically respond to inflation would be beneficial.

**Transit**

Transit costs for the Optimal System plan (Chapter 6) are also high, although still significantly less than the total roadway expenditures. One major difference is that capital costs are a comparatively small share of the overall expense unless investing in very expensive fixed-guideway (rail, bus rapid transit, etc.) facilities. Subways, common in the very largest cities, can cost hundreds of millions per mile—a cost only justified by the value of surface land and the congestion of the street system.

Capital costs for the optimal transit network were estimated at $1.36 billion to construct a fixed-guideway system along the Union Pacific corridor, a downtown circulator in Boise, a bus rapid transit system along State Street between downtown Eagle and downtown Boise, provide for bus expansion and replacement, and provide appropriate facilities such as maintenance garages, transfer centers, etc..

The operating cost of this system was estimated at $2.75 billion, assuming a ramping up of service over the next twenty-five years. At full implementation, the annual operating cost of the transit system would be $232 million by 2035.

Revenues will fall $2.66 billion short of funding the Optimal System over the next 25 years, and this is with the assumption that federal funding will be available to cover up to 80% of the capital costs.
A report by an official of the U.S. General Accounting Office in 2002 reviewed “…20 Bus Rapid Transit lines and 18 Light Rail lines and found Bus Rapid Transit capital costs averaged $13.5 million per mile for busways, $9.0 million per mile for buses on high occupancy vehicle (HOV) lanes, and $680,000 per mile for buses on city streets, when adjusted to 2000 dollars. For the 18 Light Rail lines, capital costs averaged about $34.8 million per mile, ranging from $12.4 million to $118.8 million per mile, when adjusted to 2000 dollars.”

What is the shortfall and what does it mean for the average household?

While the above computation of total transportation costs and the shortfall between costs and revenues is important, numbers with many zeroes behind a dollar sign can be numbing. How does a $6.6 billion shortfall relate to the average household? When taken across twenty-five years and broken down by the number of households projected to exist in the region by 2035, the extra funding needed per household to invest in the planned roadway and transit networks would amount another $98 million for 2010—about $430 per household.

This does not mean that $430 per year is painless for your household budget. Any expense is important. But it amounts to around $36 per month. It becomes a matter of priorities. How important is a better transportation system for the region?

What are some of the potential revenue sources that could or should be considered?

There are options. While federal funds will continue to be a significant source of funding for regional transportation, as will state-collected gas and registration fees, funding collected in the region and under the control of local agencies could provide a major source of revenue over the next 25 years. There are several options presented in Table 7 for consideration. These are not intended to show all the options that might be done. Rather these are examples that are commonly used as local option taxes.
Based on the $6.5 billion of unfunded investments, what would it take to add enough resources to pay for all the desired roadway corridors and invest in the transit network?

Table 8 provides examples of revenue sources and rates. The calculations are based on 2007 data available for fuel sales, sales tax collection, registered vehicles, home construction and income.30

<table>
<thead>
<tr>
<th>Tax/Fee Source</th>
<th>Current Legal Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit fuel tax</td>
<td>Roadway construction and maintenance</td>
</tr>
<tr>
<td>Sales Tax on Fuel</td>
<td>Potentially any transportation but needs legal review</td>
</tr>
<tr>
<td>Vehicle Registration Fee</td>
<td>Roadway construction and maintenance</td>
</tr>
<tr>
<td>Sales Tax on Goods</td>
<td>Any transportation</td>
</tr>
<tr>
<td>Income Tax</td>
<td>Any transportation</td>
</tr>
<tr>
<td>Property Tax</td>
<td>Any transportation</td>
</tr>
<tr>
<td>Impact Fees</td>
<td>Capital needs tied to effects of growth. Cannot be used for maintenance and operations, existing problems, or non-capacity improvements such as landscaping, drainage, etc. Under current Idaho law, cannot be used for transit.</td>
</tr>
<tr>
<td>Tolls</td>
<td>Typically limited to construction and maintenance of the specific facility, e.g., a tollroad.</td>
</tr>
<tr>
<td>Vehicle Miles of Travel Fees</td>
<td>Legal uses are unclear – To be a fee, the charge has to be tied to a specific benefit conferred upon the user.</td>
</tr>
<tr>
<td>Rental Cars Fees</td>
<td>Fee base is tied to use of transportation system.</td>
</tr>
</tbody>
</table>

30 Information was compiled from the State of Idaho and other sources in 2007. URL: http://www.communitiesinmotion.org/Documents/demos/reports/taskforce_data.xls
It is possible that, rather than just one of these sources being the total solution, that there would be a mix of sources used. Certainly increases in vehicle registration fees and gas taxes are more likely to accommodate roadway needs. The choice of what sources, if any, would be tapped is up to elected officials and voters. Rates were estimated for some of the more likely options.

### Table 8–Examples of Revenue Sources

<table>
<thead>
<tr>
<th>Tax/Fee Source</th>
<th>Tax Type</th>
<th>Added Rate</th>
<th>Current Rate</th>
<th>Total Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit fuel tax</td>
<td>Fixed cents per gallon</td>
<td>$0.285</td>
<td>$0.245</td>
<td>$0.53</td>
</tr>
<tr>
<td>Sales Tax on Fuel</td>
<td>Percentage of Price (Less State/Federal Unit Tax)</td>
<td>12.0%</td>
<td>0.0%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Vehicle Registration Fee</td>
<td>Dollars per Vehicle</td>
<td>$205</td>
<td>up to $60 + $48 in Ada</td>
<td>up to $313</td>
</tr>
<tr>
<td>Sales Tax on Goods</td>
<td>Percentage of Price</td>
<td>1.7%</td>
<td>6.0%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Income Tax</td>
<td>Surcharge on Existing Tax</td>
<td>14.2%</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Property Tax</td>
<td>Percentage of Assessed Value</td>
<td>0.17%</td>
<td>0.09% ACHD 0.11% CHD4</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

* This amount is for a single year. $98 million is in addition to existing revenues and
would cover the gap between existing revenues and the amount needed to fully fund maintenance and operations, new capital, and an expanded public transportation system. This revenue would be in addition to existing revenues for roadways and transit.

What would it take to tap these sources?

Any of the above options, except for the impact fee and property tax, would require amendments to state law. Barring the provision of a local option registration fee noted earlier, Idaho law does not grant local option taxing powers to local governments. One exception is under Idaho Code, Title 50, Chapter 10. It allows cities with a population no greater than 10,000 and with a “major” portion of its economy dependent on tourism to submit to its voters a non-property local option tax.

The local option registration fee, which can only be used for roadway purposes, is also constrained to be no more than twice the amount established under Idaho Code, which currently establishes a maximum of $48 for newer vehicles. Furthermore, changes that would permit a gas or vehicle tax to be used for public transportation or other non-roadway transportation projects would require a change to the Idaho Constitution. However, an increase in the local option registration fee or a local option fuel tax could be sought to provide the added revenue needed to construct the roadway portion.

Local option, dedicated taxes for public transportation are not unusual in the U.S. Especially for transit systems in areas with more than 200,000, dedicated taxes are a larger source of funding than general revenues. In 2004, dedicated taxes formed 38% of the financial base for operating costs, versus just 14% for state and local general funds and 7% for federal funds. Where transit agencies had dedicated taxes, sales taxes accounted for 80% of the revenues. Where other local governments collected the dedicated taxes, sales taxes were 67% of the revenue. (Source: National Transit Database 2004) Other dedicated tax sources included property, income, fuel, and other.

To accomplish this will take enabling legislation approved by the Idaho Legislature or by a direct initiative process. The challenge is a long-standing concern about the effects of a local option tax on the market. Some of the arguments in opposition to a local option tax are:

- Sales taxes collected in the larger urban areas likely to approve a local option tax for transportation would also be borne by residents of more rural areas who shop in the larger metropolitan areas.
- Local option taxes might drive buyers to shop in areas outside the taxing district. This could be especially difficult where the taxing district crosses borders with states with no sales tax or lower tax rates.

31 Idaho Statutes, Title 49, Motor Vehicles, Chapter 4 49-402. Motor Vehicle Registration. URL: http://www3.state.id.us/cgi-bin/newidst?srcid=490040002.K
Businesses could face additional administrative costs to track tax collections by special districts.

It is likely that any enabling legislation would require a vote of approval by residents within the district. This is the case with the resort tax under Idaho Code 50-10. Under that legislation, a simple majority is sufficient to approve a local option tax. In many states, any local option tax must be preceded by a capital and operations plan that will provide voters with some assurance as to how the funds will be spent.

In 2007, COMPASS and Valley Regional Transit worked with local governments and private organizations across Idaho to craft local option tax legislation. A coalition, Moving Idaho Forward, backed legislation introduced in the 2008 session. The Idaho House leadership wanted provisions in local option to require a constitutional change requiring a two-thirds vote to pass a local option tax. This provision, along with other restrictions, and concerns about the restrictions voiced by local governments resulted in the legislation being killed in committee. No new legislation was attempted in the 2009 or 2010 sessions.
Chapter 12 Appendix

Summary List of Federal Highway Programs
## Federal Highway Programs

<table>
<thead>
<tr>
<th>Program</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interstate Maintenance</td>
<td>The Interstate Maintenance (IM) program provides funding for resurfacing, restoring, rehabilitating and reconstructing (4R) most routes on the Interstate System. Construction of additional Single Occupancy Vehicle (SOV) lanes continues to be ineligible for IM program funds.</td>
</tr>
<tr>
<td>National Highway System</td>
<td>The program provides funding for improvements to rural and urban roads that are part of the NHS, including the Interstate System and designated connections to major inter-modal terminals. Under certain circumstances, NHS funds may also be used to fund transit improvements in NHS corridors.</td>
</tr>
<tr>
<td>Surface Transportation Program</td>
<td>The Surface Transportation Program provides flexible funding that may be used by States and localities for projects on any Federal-aid highway, including the NHS, bridge projects on any public road, transit capital projects, and intra-city and intercity bus terminals and facilities.</td>
</tr>
<tr>
<td>Bridge Replacement &amp; Rehabilitation</td>
<td>The Highway Bridge Program provides funding to enable States to improve the condition of their highway bridges through replacement, rehabilitation, and systematic preventive maintenance.</td>
</tr>
<tr>
<td>Congestion Mitigation &amp; Air Quality</td>
<td>The Congestion Mitigation and Air Quality Improvement Program (CMAQ) provides funding for projects and programs in air quality non-attainment and maintenance areas for ozone, carbon monoxide (CO), and particulate matter (PM$<em>{10}$, P$</em>{2.5}$) which reduce transportation related emissions.</td>
</tr>
<tr>
<td>Recreational Trails</td>
<td>The Recreational Trails program provides funds to the States to develop and maintain recreational trails and trail-related facilities for both non-motorized and motorized recreational trail uses. Funds are</td>
</tr>
</tbody>
</table>
The program authorizes a new core Federal-aid funding program beginning in FY 2006 to achieve a significant reduction in traffic fatalities and serious injuries on all public roads. Funds may be used for projects on any public road or publicly owned bicycle and pedestrian pathway or trail. Each State must have an SHSP to be eligible to use up to 10 percent of its HSIP funds for other safety projects under 23 USC (including education, enforcement and emergency medical services). It must also certify that it has met its railway-highway crossing and infrastructure safety needs.

<table>
<thead>
<tr>
<th>Rail-Hwy Crossings</th>
<th>To reduce the number of fatalities and injuries at public highway-rail grade crossings through the elimination of hazards and/or the installation/upgrade of protective devices at crossings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Border Infrastructure Program</td>
<td>To improve the safe movement of motor vehicles at or across the land border between the U.S. and Canada and the land border between the U.S. and Mexico. This program replaces the TEA-21 Coordinated Border Infrastructure discretionary program which ends after 2005. States may use funds in a border region, defined as any portion of a border State within 100 miles of an international land border with Canada or Mexico, for the following types of improvements to facilitate/expedite cross border motor vehicle and cargo movements: improvements to existing transportation and supporting infrastructure; construction of highways and related safety and safety enforcement facilities related to international trade; operational improvements, including those related to electronic data interchange and use of telecommunications; modifications to regulatory procedures; international coordination of transportation planning, programming, and border operation with Canada and Mexico.</td>
</tr>
<tr>
<td>Safe Routes To School</td>
<td>To enable and encourage children, including those with disabilities, to walk and bicycle to school; to make walking and bicycling to school safe and accessible.</td>
</tr>
</tbody>
</table>
safe and more appealing; and to facilitate the planning, development and implementation of projects that will improve safety, and reduce traffic, fuel consumption, and air pollution in the vicinity of schools. Eligible activities are the planning, design, and construction of projects that will substantially improve the ability of students to walk and bicycle to school. These include sidewalk improvements, traffic calming and speed reduction improvements, pedestrian and bicycle crossing improvements, on-street bicycle facilities, off-street bicycle and pedestrian facilities, secure bike parking, and traffic diversion improvements in the vicinity of schools (within approximately 2 miles). Such projects may be carried out on any public road or any bicycle or pedestrian pathway or trail in the vicinity of schools.

### High Priority Projects

The High Priority Projects Program provides designated funding for specific projects identified in SAFETEA-LU. A total of 5,091 projects are identified, each with a specified amount of funding over the 5 years of SAFETEA-LU [1701]. The funds are available only for the activities described for each project in Section 1702 of SAFETEA-LU, subject to the flexibility described above.

### Equity Bonus

The Equity Bonus provides funding to states based on equity considerations. These include a minimum rate of return on contributions to the Highway Account of the Highway Trust Fund, and a minimum increase relative to the average dollar amount of apportionments under TEA-21. Selected States are guaranteed a share of apportionments and High Priority Projects not less than the State’s average annual share under TEA-21. This program replaces TEA-21’s Minimum Guarantee program.

### Federal-aid Obligation Limitation

A limitation is placed on Federal-aid highway and highway safety construction program obligations to act as a ceiling on the obligation of contract authority that can be made within a specified time period, usually a fiscal year, regardless of the year in which the funds are authorized. These limits are imposed in order to control the highway program spending in response to economic and budgetary conditions.