Appendix 6: Financial Plan

Introduction

The region's transportation agencies have found funding a consistent challenge. The only transportation provider in the region with a dedicated funding source is METRO, which receives revenues from a one percent sales tax levied in its service area. Other providers in the region rely heavily on federal and state funding. As H-GAC's 2045 Regional Transportation Plan (RTP) describes, "…these funds have historically grown slower than operating and other transit costs. The lack of funding impacts the ability to provide a desirable level of service across the board for the transit dependent population and will probably continue to be a challenge in future years."[1]

On top of this, the ongoing COVID-19 pandemic has posed additional challenges for transportation providers throughout the region and across the country. The first months of the pandemic saw substantial declines in ridership and tax revenues. While tax revenues have rebounded in many places, ridership has yet to recover, and may not return to pre-pandemic levels for several years to come.

However, the financial picture for transportation providers is not entirely bleak. Additional federal support kept many transportation providers afloat through the pandemic, and in November 2021, the Infrastructure Investment and Jobs Act, also known as the Bipartisan Infrastructure Law, was signed into law by President Joe Biden. This bill provides up to $108 billion in funding for the nation's transportation providers, including both expansions of existing funding streams and implementation of new ones.

This document begins by examining funding allocated in the 2045 RTP to public transportation capital and operating expenses. It then analyzes existing federal and state funding streams, as well as new federal funding streams emerging from the Infrastructure Investment and Jobs Act. It looks at local matching opportunities which can ensure the region makes the most of those federal and state funding streams and

[1] H-GAC, 2045 Regional Transportation Plan. As Revised May 14, 2019. Accessed 12/9/2021 at http://2045rtp.com/documents.aspx.

concludes by suggesting actions to maximize the money available for providing transportation services in the region.

2045 Regional Transportation Plan Transit Investment Summary

The 2045 Regional Transportation Plan (RTP) contains a variety of long-term investments in the region's transit service and infrastructure, such as expanding the region's high-capacity transit network, achieving a state of good repair for transit facilities, and other capital and operating expenditures. These investments are summarized in Table 1.

Table 1: Summary of Transit Investments in 2045 RTP

Regional Investment Programs	Totals	Notes
Local High-Capacity Transit	$29,798,379,050	Includes non-corridor light rail, park and ride, transit centers, and demand management strategies.
Transit Capital	$14,345,830,962	Includes all other new or expanded facilities, services, and vehicles.
Transit Operations and Management	$22,399,862,881	Includes all transit operations and management expenditures.
Transit Other	$549,356,374	Includes non-capital transit expenditures.
TOTAL TRANSIT EXPENDITURES	**$67,093,429,267**	

The money used to support the region's transit providers comes from a variety of sources, including federal, state, and local funding streams. Table 2 contains key financial details for the region's transit operators, sourced from the National Transit Database. Data is from 2019, the most recent year for which information was available.

Table 2: Summary of Key Financial Details for Regional Transit Providers

Agency	Operating Expenses	Capital Expenses	Total Expenses	Ridership
City of Conroe	$1,754,849	$234,160	$1,989,009	45,008
Fort Bend County Transit	$8,047,621	$22,417,974	$30,465,595	407,714
Gulf Coast Transit District (Connect Transit)	$4,935,543	$367,965	$5,303,508	250,041
Harris County Transit	$5,478,842	$1,060,770	$6,539,612	229,899
Island Transit	$3,989,195	$23,735	$4,012,930	407,979
METRO	$574,298,124	$163,005,979	$737,304,103	89,951,217
The Woodlands Township	$6,172,215	$15,360	$6,187,575	691,409
Totals	**$604,676,389**	**$187,125,943**	**$791,802,332**	**91,983,267**

The Federal Transit Administration (FTA) provides funding for transit within officially designated Urbanized Areas (UZAs). Within the 13-county region, there are two urbanized areas with populations over 200,000, known as large urbanized areas: these include the Houston UZA and the Conroe-The Woodlands UZA. There are two additional urbanized areas with populations under 200,000, known as small urbanized areas: these include Lake Jackson-Angleton and Texas City-La Marque. There is also an FTA allocation provided to Galveston, which lost its status as a UZA in the 2010 Census, due to substantial population loss after Hurricane Ike in 2008, but received a waiver in 2017 allowing it to resume receiving FTA allocations for urbanized areas. Table 3 shows the FTA appropriations for each of these UZAs in fiscal year 2021, the most recent year for which data is available.

Table 3: FTA Urbanized Area Allocations, FY 2021

Urbanized Area	Funding Allocation
Conroe-The Woodlands	$3,641,115
Galveston	$1,652,897
Houston	$85,919,315
Lake Jackson-Angleton	$1,426,049
Texas City-La Marque	$1,520,758

Federal Funding Streams

The Federal Transit Administration (FTA) is the primary source of federal funding for public transit and the sole source of federal formula funding for local transit services. An increasing array of discretionary grant programs have been developed in the last year under the present administration over and above past programs, which shall increase under the Bipartisan Infrastructure Act of 2021. Funding from programs such as the Congestion Mitigation Air Quality program (CMAQ) under the Federal Highway Administration can also fund transit projects. Smaller additional programs are available in other federal agencies within the United States government including the Department of Labor and Health and Human Services. Funding for the region’s transit providers from these programs is summarized in Table 4.

Table 4: Summary of Federal Funds Received by Transit Agencies, FY 2021[2]

Agency/Areas	Urban 5307	5310	Rural 5311	State Assistance
METRO[1]	$313,167,209	$3,643,365	N/A	N/A
Conroe- The Woodlands[2]	$1,686,500	$194,923	N/A	$513,806
Galveston	$798,050	N/A	N/A	N/A
Lake Jackson[3]	$280,421	N/A	$400,220	$261,219
Texas City[3]	$620,314	N/A	Includes above	$333,530
Fort Bend Transit	[1]	N/A	$467,501	$333,994
Harris County Transit	[1]	N/A	N/A	N/A
Colorado Valley Transit	N/A	$225,000	$614,574	$484,101
TOTAL	$316,552,494	$4,063,288	$1,482,295	$1,926,650
[1]Suballocations will occur to Fort Bend Transit and Harris County Transit in 2022				
[2]The amounts were split between the City of Conroe and The Woodlands Township				
[3]Lake Jackson and Texas City are both operated by the Gulf Coast Transit District				

Formula Funds

5307

5307 Federal formula funding for urban areas provides funding to all transit agencies with populations over 50,000. In 2019 (the last year full information is available), $5.262 billion was allocated nationwide, according to the FTA. Urbanized areas over 200,000 (Houston and Conroe – The Woodlands are designated recipients) received their funds directly from FTA. Smaller urbanized areas such as the City of Galveston, Texas City-La Marque and Lake Jackson-Angleton receive funds indirectly. Their funds are suballocated from TxDOT as determined by the Texas Transportation Commission. The Fiscal 2021 funds for these smaller urbanized areas were suballocated in June 2021.

[2] Texas Transportation Commission Minute Order, June 30, 2021. Available at https://ftp.txdot.gov/pub/txdot/commission/2021/0630/6.pdf.

5307 funding is allocated in three distinct groupings, based on population and transit agency size. Each group may use funding for different purposes. The first group is the largest urban areas, with a population of one million people or more. In the 13-county region, both Harris and Fort Bend Counties fall into this group. Of the three transit agencies operating in this area (the Metropolitan Transit Authority of Harris County (METRO), Harris County Transit, and Fort Bend Transit), METRO is the only one that operates at least 100 vehicles in revenue service. As a result, METRO may only use these funds for capital and planning expenses, with very limited exceptions for preventative maintenance and services provided to meet the requirements of the federal Americans with Disabilities Act (ADA). Harris County Transit and Fort Bend Transit, because they operate fewer vehicles, may use 5307 funds for operating expenses as well as capital and planning expenses. Harris County Transit and Fort Bend Transit may use this funding stream to cover up to 50% of their operating expenses, and up to 80% of their capital and planning expenses. Fort Bend Transit also receives some funding from the 5311 funding stream, as part of its service area is classified as rural.

For these agencies, METRO is a direct recipient of 5307 funds, meaning they receive these funds directly from the Federal Transit Administration. Harris County Transit and Fort Bend Transit are subrecipients and receive from METRO a portion of the 5307 allocated to it. The Gulf Coast Transit District also receives a small amount of 5307 funding passed through METRO, as it provides service in League City, which is included in the Houston UZA.

The second group includes urban areas with a population between 200,000 and 1,000,000. Within the 13-county region, only the Conroe-The Woodlands urbanized area falls into this group. Two transit agencies serve this area: The City of Conroe and The Woodlands Township each provide transit services in their jurisdictions. As each of these services operate fewer than 100 vehicles, they can use 5307 funding for operating, capital, and planning expenses. 5307 funding is allocated directly to the urbanized area, and the two jurisdictions allocate the money under a jointly agreed formula.

The third group includes urbanized areas with populations between 50,000 and 199,999. In the 13-county region, these include the City of Galveston, the Texas City-La Marque urbanized area, and the Lake Jackson-Angleton urbanized area. The City of Galveston is served by Island Transit, while each of the latter two urbanized areas are served by the Gulf Coast Transit District. Agencies in these areas may use 5307 funding for operating, capital, and planning expenses, regardless of transit agency size. Funds for these urbanized areas are allocated by FTA to the Texas Department of Transportation, which in turn suballocates those funds to the transit agencies.

5310

5310 (Enhanced Mobility of Seniors and Individuals with Disabilities) provides federal formula funding for the purpose of meeting the transportation needs of older adults and persons with disabilities. Funding is allocated through a formula directly to urban areas with populations over 200,000 and is routed through the state Department of Transportation for urban areas with populations under 200,000. Eligible projects include traditional capital investments, programs that remove barriers to transportation services and expand transportation mobility options. 5310 funding allocated to urban areas is directed to specific programs through an annual competitive process. In the Houston area, 5310 funding is allocated directly to METRO, which is responsible for the competitive process to allocate funding to specific projects.

5311

The 5311 program (Rural Formula Funding and Intercity Bus) provides federal formula grants in designated rural areas with populations under 50,000. Colorado Valley Transit (CVT) is the only agency within the Houston-Galveston region that receives all its federal operating formula funding in this manner. The Gulf Coast Transit District and Fort Bend County Transit receive portions of their funding from 5311 since part of their service area is rural. Funding is apportioned to the states who in turn allocate amounts to the different respective agencies. At least fifteen percent of all 5311 formula funds are normally set aside to assist intercity bus services within the state.

5337

5337 State of Good Repair Grants provide capital assistance for maintenance, replacement, and rehabilitation of transit systems to maintain assets in a state of good repair. Funding is allocated by statutory formulas. Agencies in areas over 200,000 receive the funding apportionment directly from FTA; small urban (under 200,000) and rural agencies receive the allocation from the state government. All regional agencies are eligible for funding under this program.

5339

5339 grants for Buses and Bus Facilities Formula Program provides a means through a statutory formula for transit agencies to replace, rehabilitate and purchase bus and bus related facilities. Agencies in areas over 200,000 receive the funding apportionment directly from FTA; small urban (under 200,000) and rural agencies receive the allocation from the state government. All regional agencies are eligible for funding under this program.

Discretionary funding is federal funding that transit agencies and other designated recipients (such as Management Districts) may compete for in specific calls for projects. Among examples of these competitive grants are: Areas of Persistent Poverty, Better Utilizing Investment to Leverage Development (BUILD) and the Congestion Mitigation and Air Quality (CMAQ)[3] – initially funded through the Federal Highway Administration which works with FTA in administering the program. All of the grant programs, including formula and competitive funding opportunities, can be accessed at https://www.transit.dot.gov/grants.

Pandemic Relief Funds and New Federal Funding

Nationally, formula funding for transit grew at an annualized rate of about 4.5% between FY 2015 and FY 2019. Table 5 shows the growth in national formula funding for transit across that time frame. This growth allowed the region's transit agencies to maintain stable revenues, as income and expenditures kept pace with each other.

[3] Note that CMAQ funding is distributed by the federal government through a formula, but recipients of CMAQ funding have leeway to distribute to sub-recipients through a discretionary process, as H-GAC does for CMAQ funding in the Houston region.

Table 5: National Transit Formula Funding Growth Rate, FY 2015-FY 2019[4]

Year	Total National Formula Funding	Year-Over-Year Growth Rate
2015	$10,890,650,000	1.6%
2016	$11,667,604,639	7.1%
2017	$12,406,302,353	6.3%
2018	$13,363,363,407	7.7%
2019	$13,339,067,030	-0.1%
Annualized Growth Rate, 2015-2019		**4.5%**

However, the arrival of the COVID-19 pandemic created a fiscal hole for transit agencies across the region and across the nation. Ridership and operating revenues dropped, resulting in agencies needing additional aid to meet their operating costs. Widespread federal financial relief to a range of industries and individuals, including public transit, occurred in the Coronavirus Aid Relief and Economic Security Act (CARES) passed by Congress in 2020 which provided $28 Billion to allow public transit to continue to operate in the United States. This funding for agencies within the 13-county region is shown in Table 6.

[4] FTA Archived Apportionments, https://www.transit.dot.gov/funding/apportionments/archived-apportionments, Accessed 12/22/2022.

Table 6: 2020 CARES Act Transit Funding by UZA

Agency	Houston UZA	Conroe - The Woodlands UZA	Texas City UZA	Lake Jackson UZA	Island Transit UZA	Rural Funding	TOTAL
METRO	$248,835,226	N/A	N/A	N/A	N/A	N/A	$248,835,226
Fort Bend County Transit	$4,742,243	N/A	N/A	N/A	N/A	$5,422,960	$10,165,203
Harris County Transit	$4,200,000	N/A	N/A	N/A	N/A	N/A	$4,200,000
Conroe Connection	N/A	$2,060,115	N/A	N/A	N/A	N/A	$2,060,115
The Woodlands Township	N/A	$7,478,137	N/A	N/A	N/A	N/A	$7,478,137
Gulf Coast Center (Connect Transit)	$791,867	N/A	$4,293,542	$3,258,572	N/A	$497,143	$8,841,124
Island Transit	N/A	N/A	N/A	N/A	$4,675,290	N/A	$4,675,290
Colorado Valley Transit	N/A	N/A	N/A	N/A	N/A	$1,014,547	$1,014,547
Brazos Transit District*	N/A	N/A	N/A	N/A	N/A	$3,274,357	$3,274,357
TOTAL	$258,569,336	$9,538,252	$4,293,542	$3,258,572	$4,675,290	$10,209,007	$290,543,999
**** includes funding outside of Houston - Galveston region***							

As the pandemic continued, additional federal aid was needed for transit agencies to continue to operate. Two additional relief bills were passed in late 2020 and early 2021. First, the Coronavirus Response and Relief Supplemental Act, known as CRRSA, which provided an additional $14 billion dollars to transit agencies around the nation. This funding was distributed similarly to CARES Act funding, though in smaller amounts. The current administration provided a third COVID relief bill, the America Rescue Funding was distributed in both acts on a formula basis using the 2019 formula distribution as the model allocation of funding.

Unlike standard capital and operating funding, transit agencies were not required to provide a local match but received 100% funding grants from the federal government. Their requirement was to properly document the expenditure of all federal revenues received. They could be used for operating, planning capital and safety expenses. Relief funds were unique in that they were funded at 100% (without requiring a local match).

The passage of the Infrastructure Investment and Jobs Act is expected to bring growth in federal formula funding above and beyond the growth rate in the second half of the 2010s. With transit ridership still below pre-pandemic levels for most agencies, this funding will help ensure the continued financial sustainability of transit agencies in the region. However, unlike pandemic relief funds, these formula funds do require local matching funds. Opportunities to find a local match are described in the following section.

Local Match Opportunities

State Revenues

Table 2 also shows the distribution of Texas state assistance to transit agencies and urbanized areas in the region. The Texas Department has historically provided transit assistance to small urban and rural agencies. In recent years, due to population growth, it has provided assistance to agencies in urbanized areas under 1,000,000 in population.

Assistance to transit agencies remained stable at approximately $60 million per year between the mid 1990’s and 2020. In Fiscal Year 2021, the Texas Transportation Commission increased the level of assistance to near $70 million which was approximately an average 16% increase which could be matched against increased federal funding.

Local Revenues

Transit systems cannot practically operate in the region with only federal or even federal and state funds. Local funds are essential. Areas not providing local match correlate to areas that lack transit services. How much local match revenues are provided can vary widely based on service levels and local conditions.

Local match can come from a variety of sources. METRO is the only agency that has a dedicated funding source, a one cent sales tax that has been in place for over four decades. Other agencies use local funding from the general county or municipal which can vary funding from year to year, Other sources of funding can be nonprofits agencies, advertising or use taxes such as a motel or car rental tax.

Transportation Development Credits

A relatively different sort of revenue instrument has emerged within the region in recent years: Transportation Development Credits (TDCs). They represent the revenues generated by the four county toll authorities. (Harris, Fort Bend, Montgomery, and Brazoria Counties).

TDCs are not money but an offset that can be applied versus federal funding in effect as the local match. For example, 100K TDCs can be applied as local match for a $500K transit project be it capital, operating or planning. The TDC does not increase the value of the project over and above the federal revenue provided. It allows the project to move forward with an alternate form of match.

The Transportation Policy Council (TPC) of the H-GAC Metropolitan Planning Organization has used TDCs as a supplement to transit agencies as a supplement to allow systems to expand service and not as a replacement for the fundamental requirement of providing local match of core service requirements. Given that slightly more than 1 billion TDCs are available as of the beginning of Fiscal 2022, their use moving forward is significant. How they proceed will be at the discretion of the TPC as to their appropriate use in transit fiscal policy.

Farebox Revenues

While farebox revenues cannot be used for local match they are a measurable portion of revenues. They do offset total expenses. The percentage of farebox revenues vary widely according to level of ridership and service mode. Commuter service tends to have a higher farebox revenue, while demand response has a considerably lower percentage.

Possible Future Funding Sources

Additional future local funding sources exist that could augment the options to provide transit sources within the region. Many would require policy changes in the legislature or actions by local officials that have not occurred in the past. Other have not been introduced into the region but have potential especially for capital projects.

Toll Road Revenues that are in excess of those needed to operate the systems could be transferred to transit agencies. This would require a drastic policy change in actions.

Use of dedicated sales tax revenue is currently only possible in the METRO service since other others have reached their sales tax maximum allowed by state law. Bills have been introduced in recent sessions without success to increase the allowable cap above 8.5 cents. It would allow a dedicated transit tax beyond the METRO service area.

As a transit agency, METRO is authorized to issue bonds for long term expenses with public approval in referendum which it successfully did in November 2019. The Gulf Coast Transit District also would have the authority to issue bonds in the same manner but has not done so. No other transit agencies have the authority to do so. They would need to be depended on the government agency they are part of to issue bonds on their behalf.

Value Capture is a means of funding that is used for large capital projects extensively in Europe and Latin America. The premise is that surrounding properties from a fixed guideway project will increase in value. That value increase can be captured as a local match. The FTA permits such use. Its value would be contingent on the project and adjacent property values.

The 87th Texas Legislature passed a Registration Fee for Transportation purposes that can be used for transit. The counties that could possibly use this fee are Montgomery, Brazoria and Galveston and County. The legislation allows up to a $10 per vehicle fee to be levied by the county if it successfully passes a public referendum. Since the number of registered vehicles in Texas counties track closely to the population, the estimated revenues would be 10 times the population per year,

Financial Plan Strategies

The 2045 RTP plans for a total of $67.1 billion in transit expenditures in the next 25 years, including operations and capital costs. $38.2 billion of the revenue needed for those expenditures will be generated by METRO for METRO-specific costs—this includes $14.7 billion in METRO farebox recovery and $23.5 billion from the dedicated METRO sales tax. This means that an additional $28.9 billion, or $1.26 billion per year for each year between 2022 and 2045, will be required to fully fund the region's transit expenditures under the RTP recommendations. In Fiscal Year 2021, a total of $322.1 million was received by all of the region's transit providers from the federal government, along with an additional $1.9 million in state aid. This means an additional $936 million will be needed in combined federal, state, and local funding to accomplish all transit-related programs listed in the RTP. While much of that funding is accounted for in other funding streams mentioned in the RTP, any additional improvements to service that transit providers may seek to implement, beyond those listed in the RTP, will require additional funding sources.

While new federal funding sources have recently emerged, such as CARES act funding and IIJA funding sources, the region is still fiscally constrained in the transportation services it can provide. This plan suggests that agencies should seek to maintain existing levels of service first, while also seeking new funding streams to provide additional transportation opportunities. However, one constraint that transportation providers face is the need to find local match funding to accompany emerging federal funding streams. Several tools may be available to meet this need.

State funding can be used to provide a local match, though this funding is only available to rural areas, and urbanized areas with populations under 1,000,000. Across all transit providers in the region, more than $1.9 million in state funding was allocated in fiscal year 2021, as shown in Table 4. Note, however, that the exclusion of large urbanized areas (i.e., Houston) limits their use to agencies operating outside Harris County.

Transportation Development Credits provide another potential source of local matching funds. With just over 1 billion in TDCs available for FY 2022, these may be a crucial source of support for many agencies in the region. These can be used to offset local match requirements, creating opportunities to expand service or implement new pilot programs. Farebox revenue may also be a source of local matching funds. Other sources of local matching funds, including those from additional sales taxes, bonds, or value capture, would require action by state or local government to be workable.

While local transportation providers may pursue some or all of these options for expanding local match, they may also consider other alternatives for more stable long-term sources of local funding for transportation. Providers may consider working together to create a regional Local Match Development Fund, which could include Challenge Grants coordinated through the H-GAC Local Development Corporation and other Community Development Corporations (CDC) in partnerships with local elected officials, local business leaders and regional public and private transportation service providers.

To further meet the needs of certain key populations in the region, non-profit organizations that provide services to groups like veterans or persons with disabilities may be able to help fill the need for specialized transportation services. In the focus group targeted at individuals with disabilities, many pointed to groups like the Houston JCC's J-Ride program, or the transportation services provided by Mounting Horizons, as helping meet some of their transportation needs. Local and state leaders may choose to help organizations like these expand their services to meet some of the existing transportation need.

The transportation landscape in the 13-county region is rapidly evolving: as discussed in the Provider Inventory, many former transportation providers in the region no longer offer services, while new services, such as microtransit pilots, have recently been inaugurated. Alongside these changes, the region may emerge from the COVID-19 pandemic with more workers taking advantage of tele-work arrangements or non-standard work hours implemented by necessity during the pandemic. These changes may indicate a larger role for transportation demand management strategies in addressing the region's transportation need, and local leaders may consider expanded funding for these efforts as well.

Key Takeaways

- Implementation of the recommendations in this RCTP will likely require the region's providers to find creative ways to increase revenue.
- Recent federal legislation provides new funding opportunities for transportation providers, though local matching funds are likely to remain a challenge.
- A variety of opportunities for local matching funds exist, including toll development credits, bonds, and value capture, but some of these sources will require legislative action at the state or local level to implement.
- Increased funding for non-profit transportation providers and maximizing transportation demand management programs may also help the region meet its transportation needs in a cost-effective way.