REPORT TO THE LEGISLATURE PURSUANT TO ACT 62 OF 2023, SECTION 15

Report on Funding Sources for Public Transit Nonfederal Match

Executive Summary

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submitted to

The Vermont House and Senate Committees on Transportation

Vermont Public Transportation Association

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EXECUTIVE SUMMARY

This study fulfills the request of the Vermont Legislature in Section 15 of Act 62 of the 2023 session to provide "a written recommendation on one or more funding sources for the nonfederal match required of public transit providers operating in the statewide transit system."

While the transit system in Vermont has received a tremendous amount of support from VTrans and the legislature, it now faces an impending fiscal crisis in the next two years and extending into the future. This crisis has been building for some time, but the large amount of federal aid associated with COVID-19 relief pushed it off for a few years. The pandemic funds will be exhausted within the coming year, but the high cost of providing needed service will continue. A tight labor market, a shortage of drivers (including severe competition for drivers with commercial drivers license certification), along with inflation affecting many other cost factors, have driven up the cost of providing service every year at a faster rate than the funding supplied by the federal government.

The gap between costs and federal support must be filled by sources at the state and local level. At the same time, the need for transit access is increasing due to the following and other factors:

- Vermont's aging population combined with its Aging in Place policy;
- the ongoing opioid epidemic and the associated daily lengthy trips to treatment;
- the challenges for employers to fill positions and for rural low-income Vermonters to break the cycle of poverty; and
- the need for the state to address climate change.

Transit is often "assumed" to be in place to address all of these societal burdens, but the only way it can fulfill that role is with reliable source of funding that consistently meets the need.

Using forecasts of revenue and expenses from VTrans and the seven transit providers, this study estimated the gap in funding for the next three fiscal years. This gap represents the money needed merely to *sustain* the existing level of service and some capital investment in Fiscal Year 2025. The table below summarizes the fiscal situation (which is laid out in detail in Chapter 4 of the report). The amounts shown for federal and state operating funds assume that ***State funding for transit operations will not decrease*** from the $9.85 million budgeted for FY25 and that the ***flexing of federal highway funds for transit will not decrease*** from the $23.5 million budgeted for FY25.

Statewide Fiscal Line Item	FY25	FY26	FY27
Federal and State Operating Funds	$46,080,081	$46,091,962	$46,417,790
Operating Expense Net of Local Funds	$46,434,640	$48,832,279	$50,110,829
Capital Expense from Formula Funds	$1,907,618	$0	$0
Reserved ARPA/Urban Formula Funds	$2,262,177	$1,463,658	$0
NET DEFICIT	$0	($1,276,659)	($3,693,039)

Absent the use of residual, one-time federal relief funds, the table shows that *existing revenues are insufficient to maintain current levels of transit service* in the aggregate statewide. Because of that federal relief funding, the table does show that available funding is sufficient for SFY 2025 even including some capital investment, but that there is a $1.3 million gap in SFY 2026 and a $3.7 million gap in SFY 2027. These gaps do not include needed expenditures for capital investment in vehicles and facilities. ***Without filling these funding gaps, service will need to be cut, resulting in a growing body of unmet need, year after year.***

It is essential to note that these forecasts are primarily concerned with operating expenses, and they ***assume no expansion of service or addressing unmet needs***, beyond a few isolated cases (mostly impending microtransit pilot projects). Because of the policy goals listed above, there is significant pressure on Vermont's transit providers to expand service beyond what is operated today. In rural parts of the state, an initiative called Mobility for All would allow anyone in Vermont—not just those meeting eligibility requirements for age, disability or income—to obtain a ride for any purpose. This program would enhance job access, address social isolation, improve health outcomes, and allow vulnerable Vermonters to take full advantage of programs offered by state agencies and non-profits. ***Lack of transportation is a major obstacle to full participation in society***.

Additional funding is needed to reinvigorate transit service in the Burlington metropolitan area where ridership is well short of the peak reached in FY 2015. This includes service improvements on trunk bus routes, a systemwide microtransit overlay that could appeal to younger riders and would greatly enhance access for people with disabilities, and improvements in safety and security, which would also apply to rural providers.

Capital investment is an essential component of the transit system and comprises vehicles, facilities and equipment. Deferred or inadequate capital investment results in increased operating costs (and thus a wider fiscal gap) and future increases in capital costs to make up for the lack of maintenance and timely replacement of assets. With all of the formula funding going to support operations, VTrans and its transit agency partners will need to aggressively pursue federal funding through competitive grant programs. Additional local and state match for capital projects, beyond what is assumed in the figures above, will be necessary.

Revenue Options

In order to close the fiscal gap identified above and establish sources of funding so that the transit system can address *current essential societal needs*, this study examined 14 potential fees and taxes, eight related to transportation and six related to other sectors of the economy. Many of these have been studied before in Vermont and elsewhere, and three of the non-transportation-related options were carried forward from the most recent study of transit financing. The 14 options, discussed in detail on Chapter 7 of the report, were evaluated and ranked by the study steering committee. The four revenue sources recommended for implementation are as follows:

- **Vehicle registration fee –** Increase the fee and consider transition to an *ad valorem* fee to reduce impacts on low-income Vermonters.
- **Utility fee –** Work with Public Utility Commission to institute a fee to account for the increasing role of electric power in transportation.
- **Rental car tax –** Increase existing tax to support mobility, especially in the Burlington area.
- **Retail delivery fee –** Impose new fee in recognition of damage caused to Vermont's roads by delivery vehicles.

Conclusion and Next Steps

Because of reserve funds from pandemic programs and advocacy for transit in the SFY 2025 budgeting process, no additional funds for transit will be needed for the coming fiscal year unless transit service is expanded or underlying assumptions change. The same cannot be said for SFY 2026; ***it is critical for the legislature to use the 2024 session to make the policy decisions to generate the needed revenue for public transit beginning in SFY 2026***.