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

Report on Funding Sources for Public Transit Nonfederal Match

January 2024

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***.

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1. INTRODUCTION

For more than 20 years, transit agencies in Vermont have been concerned about the availability of non-federal matching funds to be able to draw down urban (section 5307) and rural (section 5311) federal operating funds. For regular operations, a 50% non-federal match is required. While the State has provided operating assistance to the transit agencies to serve as non-federal match, VTrans has had a longstanding goal that 20% of total operating funding should come from local sources (not state or federal). Through various iterations of the Public Transit Policy Plan and annual Route Performance Reviews, the goal has either applied to each provider individually or all providers together. Before the pandemic, because GMT-Urban generated about 20% of its revenue through fares and another 25% or so through local assessments, the state generally was able to meet the overall 20% target.

The COVID-19 pandemic had far-reaching impacts on public transit, one of which was to reduce the need for local match, as emergency funds from the CARES act, CRRSAA, and ARPA required no non-federal match. These funds are now running out. Furthermore, the Infrastructure Investment and Jobs Act increased base funding levels in the section 5307 and 5311 programs, but retained the traditional matching formulas. Thus, most providers are facing a situation where they are moving from a period with minimal local match requirements to a period with the highest match requirements they have ever faced. At the same time, the State is facing significant budgetary pressure to be able to sustain programs that began during the pandemic (beyond transportation), and thus does not have excess operating funds available to be able to take up the slack.

In the best of times, local property taxes, which are the predominant source of municipal funding, are a very scarce resource. It is extremely unlikely that transit providers would be able to significantly increase the amount of money coming from municipalities. The crisis in local funding has been building for years but is now coming to a head. As a result, the Vermont Public Transportation Association is looking for concrete recommendations for alternative non-federal funding sources to avoid service cuts in the next couple of years.

This report follows two recent studies of local funding for public transit in Vermont: the 2015 Vermont Public Transit Local Funding Study, commissioned by VTrans, and the 2021 Transit Financing Study, commissioned by the Chittenden County Regional Planning Commission. These reports presented a wide range of possible sources of new revenue to serve as dedicated funding for public transit. 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."

Following this introduction, the report considers the current state of transit funding in Vermont and how Vermont compares to other rural states. It then discusses the role of the transit system in Vermont and the many ways it supports other policies and sectors of the economy and society. With this background, the report then presents forecasts of transit finance and ways to address the shortfall in local funding. Finally, a recommended option is presented, along with alternatives for the legislature to consider.

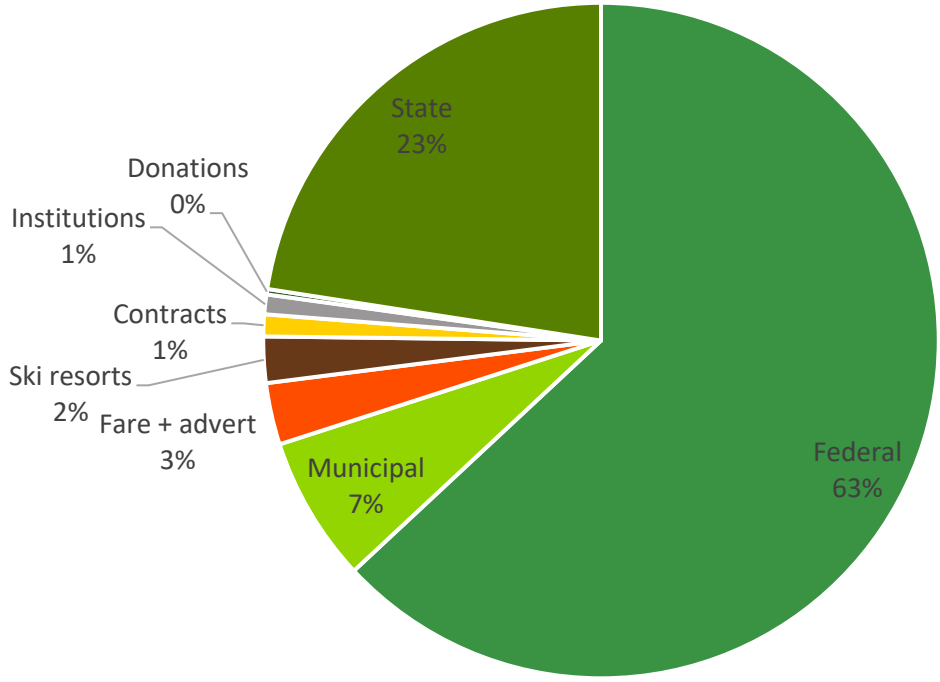
2. TRANSIT SERVICE AND FUNDING IN VERMONT

Current Mix of Funding Sources

The projected total operating expense for all forms of public transit in Vermont (including subsidized intercity bus, but not Amtrak service) for State Fiscal Year 2025 is over $67 million. Of that total, about $45 million will be spent in rural areas of the state by the seven public transit providers, about $19 million will be spent in the urban portion of Chittenden County, and the rest will be spent on statewide service and administration. These totals do not include any expenditures for capital costs, such as buses or facilities.

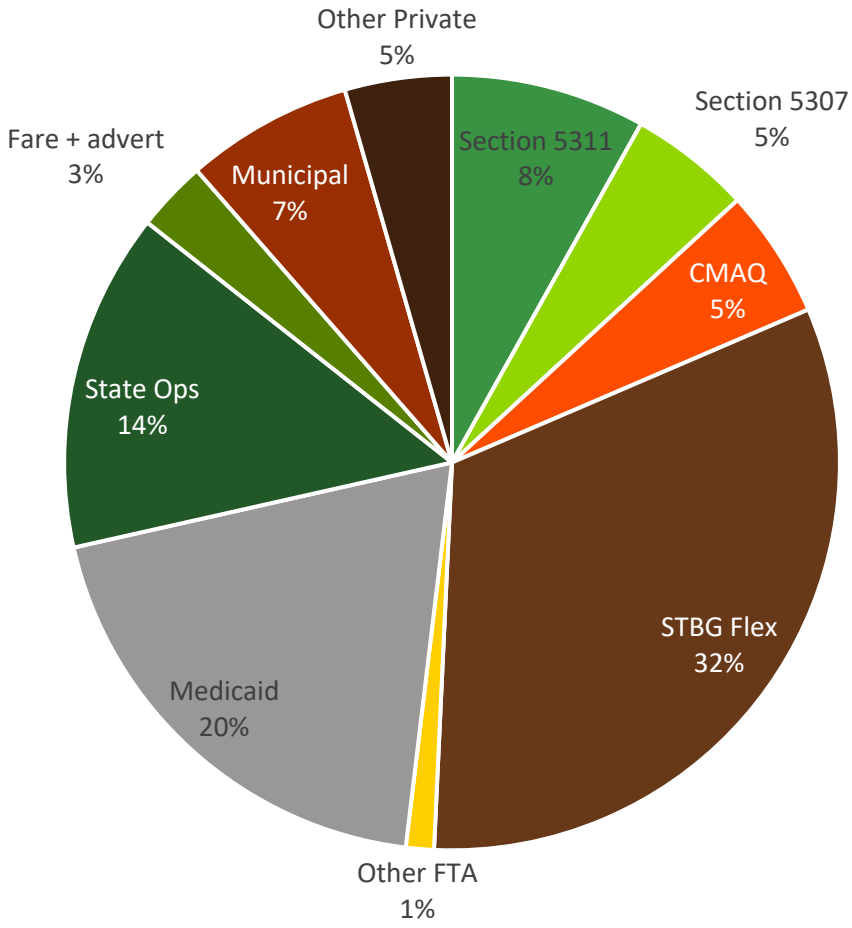
The funding for those operations comes from a variety of sources, including the federal government, state and local governments, ski resorts, institutional partners, human service agencies, individual donors and business contributors. Figure 1 below shows the shares of the total budget by source.

Figure 1 – FY2025 Transit Operating Funding by Source



Another way to consider the sources of funding for transit is by program. The most important federal funding programs are Section 5307 (urban formula funding), Section 5311 (rural formula funding), Congestion Mitigation/Air Quality (CMAQ), and flexed funding from Federal Highway Administration's Surface Transportation Block Grant (STBG). Medicaid funding for non-emergency medical transportation is a mix of federal and state funding, but it is not a USDOT program as the prior-listed ones are. The State provides direct funding for transit operations out of the Transportation Fund and the general fund. Then there are all of the other local sources. Figure 2 shows the projected shares of total funding by program for FY2025.

Figure 2 – FY2025 Transit Operating Funding by Program



Comparison to Other Rural States

State and FTA Formula Funds

According to the 2020 Census, Vermont is the most rural state in the nation, defined by the percentage of its population residing outside of census-defined urbanized areas and urban clusters. For Vermont, that percentage is 64.9%, followed by Maine at 61.4%. There are ten states that have a rural percentage of over 40%, and this group thus forms the best basis of comparison for the state-level investment in transit services.

Table 1 below presents statistics for Fiscal Year 2021 (the most recent available) for the ten most rural states. It shows the total amount of state funds for transit in that year, plus the state funding per capita. A second per capita data point is shown for FY 2017 to remove any potential impacts of the pandemic and to demonstrate the level of consistency over time. Finally, the table shows FTA FY 2021 formula funds (5307 and 5311) for each state in total and per capita.

As was true when the 2020 PTPP studied this same topic, Vermont stands out "like a sore thumb" when it comes to state funding for transit per capita among rural states. The average among the other nine most rural states is $0.99 per capita; Vermont's expenditure is nearly 13 times that level. Furthermore, this vast difference is consistent over time, as the state spending in FY 2017 was also much greater than the other rural states, by a factor of 15.

This vast difference is not at all apparent in the FTA formula funding per capita. Vermont is slightly above the average of $19.93 among all ten rural states, but all of the states are within a relatively narrow range. Of course, the total amount of FTA formula funding varies widely by state, since there is a large difference in population between the smallest and largest rural states. Vermont receives the lowest total amount.

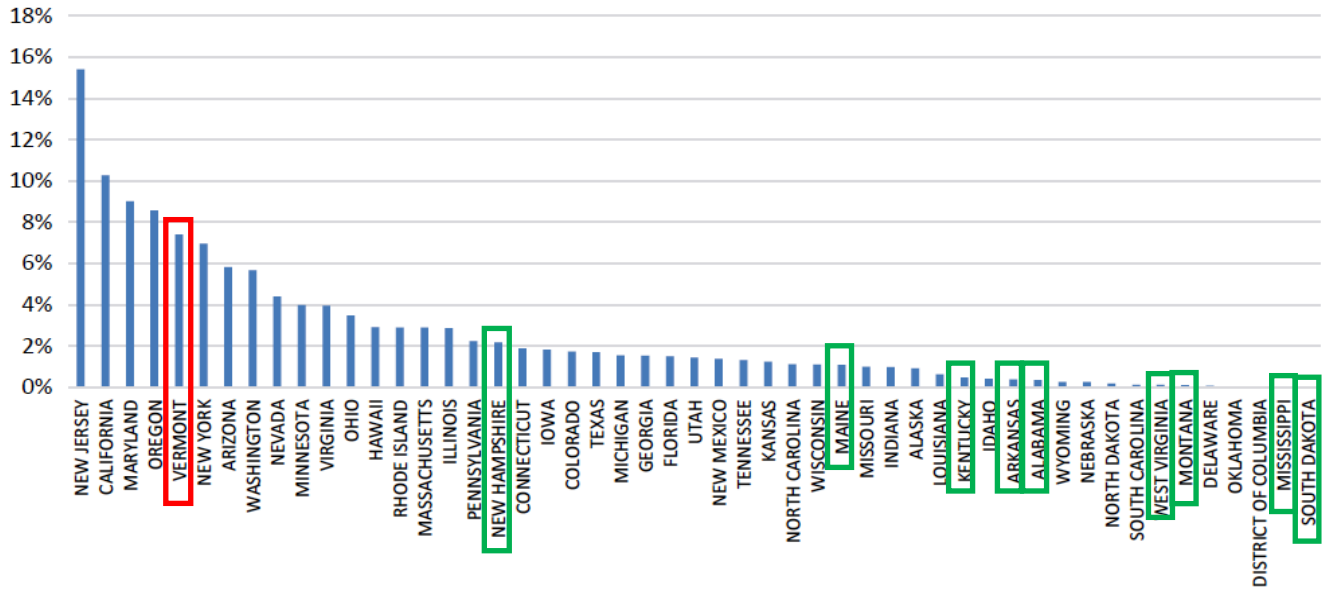
Table 1 – FY 2021 State and Federal Formula Funding for Transit: Total and Per Capita

State	Population 2021	Pct. rural	Total State Funds for Transit	2021 State Funds per Capita	2017 State Funds per Capita	FTA Formula Funds	FTA Formula per Capita
Vermont	646,972	64.9%	$8,330,000	$12.87	$12.70	$13,630,000	$21.07
Maine	1,377,238	61.4%	$3,720,000	$2.70	$0.95	$40,950,000	$29.73
West Virginia	1,785,526	55.4%	$2,260,000	$1.27	$1.25	$34,180,000	$19.14
Mississippi	2,949,586	53.7%	$1,760,000	$0.60	$0.54	$51,810,000	$17.57
Montana	1,106,227	46.6%	$1,580,000	$1.42	$0.78	$29,910,000	$27.04
Arkansas	3,028,122	44.5%	$3,490,000	$1.15	$1.18	$36,460,000	$12.04
South Dakota	896,164	42.8%	$1,050,000	$1.17	$1.15	$21,360,000	$23.83
Alabama	5,049,846	42.3%	$0	$0.00	$0.00	$77,450,000	$15.34
New Hampshire	1,387,505	41.7%	$460,000	$0.33	$1.37	$20,770,000	$14.97
Kentucky	4,506,589	41.3%	$1,400,000	$0.31	$0.38	$83,480,000	$18.52

Flexing Federal Highway Funds

As demonstrated in the prior section, the story of federal funding for transit is incomplete if one considers only FTA formula funding. A 2022 report from the National Cooperative Highway Research Program compiled state-level data on the flexing of Federal Highway Administration (FHWA) funds to the transit program. The following three figures from that report show how Vermont compares to all states in flexing FHWA program funds to transit. Figure 3 shows the percentage flexed among all FHWA funding programs combined. Vermont ranks fifth among all states, while most of the rural states rank near the bottom.

Figure 3 – Funds Transferred from Highway Programs to Transit as Percentage of Total FHWA



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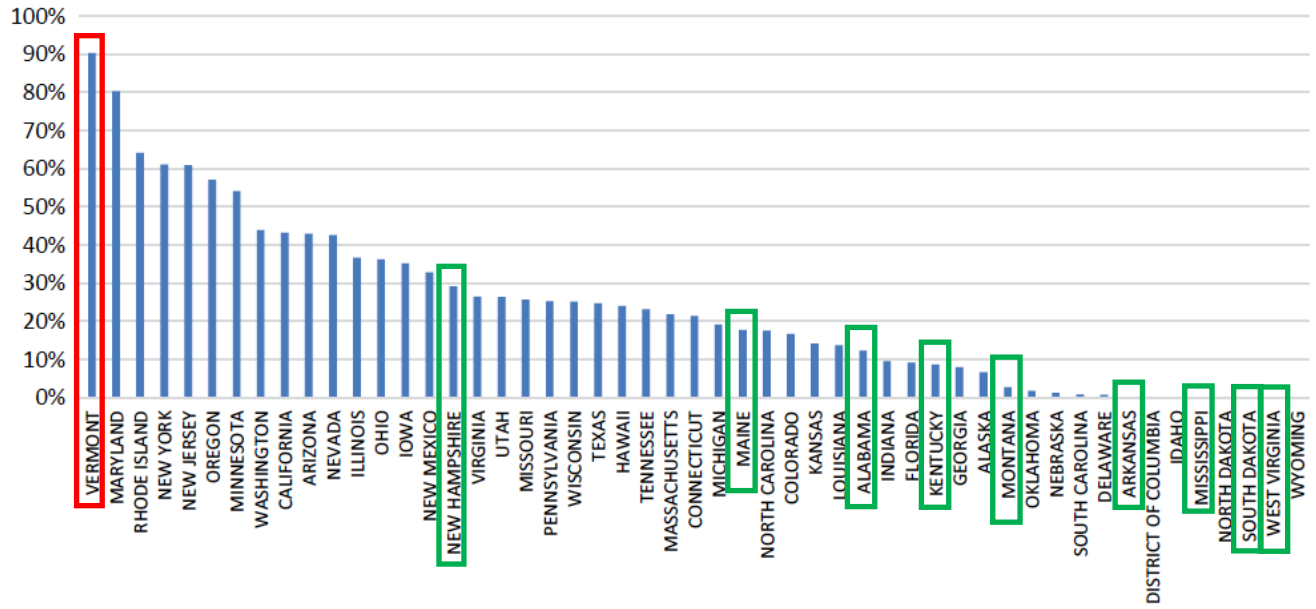
All of the states, other than Vermont, with the highest percentages have major metropolitan areas with rail systems. In contrast to Vermont's nearly 8% rate of flexing FHWA funds, all of the other rural states flex 2% or less of their FHWA funds, and four of them are essentially at zero. The phenomenon shown above is even more pronounced when considering the CMAQ program, as shown in Figure 4.

Figure 4 – Funds Transferred from CMAQ to Transit as Percentage of Total CMAQ



In this case, Vermont ranks first in the nation and flexes about 90% of its CMAQ funding to transit. Vermont is fortunate that it does not have much traffic congestion or air quality problems compared to other states and thus has full freedom to use CMAQ funds for its own policy goals. However, other rural states that also do not have much traffic congestion flex little or none of their CMAQ dollars. Four of the rural states do not use any CMAQ funds for transit. The next highest to Vermont—New Hampshire—flexes CMAQ funds at only one third the rate that Vermont does.

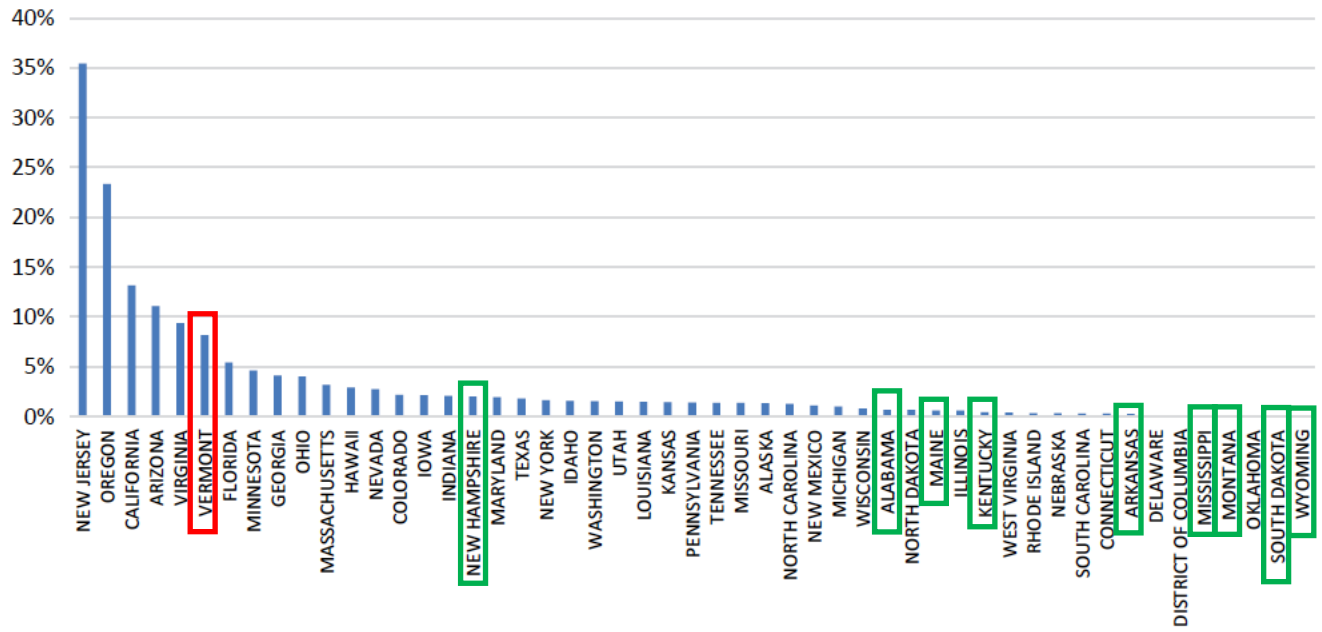
The final chart in this series, shown below in Figure 5, considers the Surface Transportation Block Grant program, from which Vermont has been flexing $20 million or more into the transit program. This amounts to about 8% of the total STBG funds for the state, but it is a much larger program in absolute dollars than CMAQ, where the 90% flexing rate translates into only about $4 to $5 million.

Similar to Figure 3, the STBG data show Vermont ranked among states with much larger populations, major metropolitan areas and large rail systems. Most of the rural states are at or near zero in terms of flexing STBG funds; only New Hampshire flexes more than 1% from this source. The NCHRP report did not provide the absolute dollar amounts associated with these percentages. It is possible that Alabama, with its much larger population and STBG apportionment, flexes a dollar amount that is similar to Vermont. However, the demonstrated commitment of VTrans to supporting public transit, both through State funds and flexing significant portions of its FHWA funds, is unrivalled among rural states.

One could look at the charts and tables in this section and conclude that Vermont is already doing "enough" to support public transit, since its investments are a literal order of magnitude greater than other rural states, especially when it comes to the expenditure of state dollars. However, as was found during research for the Section 20 study in 2019, rural portions of Switzerland, with population densities similar to

those in the Northeast Kingdom, spend nearly ten times the amount Vermont spends per capita on subsidies for public transportation.

Figure 5 – Funds Transferred from STBG to Transit as Percentage of Total STBG



Ultimately, the amount that Vermont spends on public transit depends on the needs of its citizens and the functions that the greater transit system is being asked to serve. The next chapter considers the role of public transit in Vermont.

3. TRANSIT SYSTEM'S ROLE IN VERMONT

Essential Mobility for Vulnerable Vermonters

As the most rural state in the nation, many Vermonters live substantial distances from the places they need to reach for work, shopping, school, medical appointments and many other purposes. Vermont is also among the top three states (along with New Hampshire and Maine) in terms of median age. Many people choose to retire to Vermont, and many longtime residents remain in the state as they age, while younger people relocate out of state to larger metropolitan areas in search of employment or a different lifestyle. A large portion of Vermont's population has limited income, as much of the state does not have access to higher-paying jobs that are most prevalent in larger metro areas.

These factors in combination result in a need for mobility for many Vermonters. Most of them have access to cars, but plenty do not, and all of them can be thought of as "vulnerable" to a misfortune that would undermine their ability to get where they need to go: a sudden illness, the loss of a job, car malfunction, or a suspended license. For these vulnerable Vermonters, the public transit system provides an essential safety net of mobility.

The current transit system provides more thorough coverage for some than for others. Older adults (age 60+) and people with disabilities are all eligible for transportation under the State's Older Adults and People with Disabilities (O&D) program. People with incomes low enough to qualify for the Medicaid program can get transportation to medical appointments if they do not have a car available. Other pilot programs provide access to recovery treatment and employment. However, the safety net has holes in it for people who do not qualify for one of these programs, and there are limits on how many trips these programs will supply (other than Medicaid).

As discussed in chapter 5, the state is considering ways to fill the holes in the safety net so that no Vermonter is left without access to essential services. But the number of people who are taken care of by the current system, both its bus routes in urban, small town and rural areas, and demand response service statewide, is testament to the value that has been placed on essential mobility by the Vermont legislature, VTrans, and the Agency of Human Services which jointly fund the majority of service, and all of the transit providers who work tirelessly to make it happen.

Impacts of Policy Choices in Other Sectors

Transportation is considered to be a "derived demand" in that transport services are not consumed for their own sake but rather for another purpose. People use transportation to get somewhere for some purpose, such as work, shopping, errands, social visits or any number of other reasons. In this same way, the demand for public transportation is often determined by other sectors of the economy or other policies, and these sectors or policies do not necessary take account of the cost of providing that transit service, nor whether that service can be efficiently integrated with existing service.

This section discusses a range of policies, trends and social or environmental factors that have an impact on the need for public transit. In many cases, society assumes that public transit will be there to support the policy or social goal without appropriating sufficient resources for it to do so. In building the case for additional dedicated funding for transit beyond current resources, it is critical to recognize the impacts of these external factors.

Aging in Place

Vermont has published a number of policy documents that support aging in place; that is, providing assistance to older adults who choose to remain in their own homes as they age, rather than relocating to

assisted living facilities, nursing homes, or even new residences closer to medical and social services they may need with increasing frequency. The State Plan on Aging discusses many aspects of this policy. Page 85 of the plan includes the following text: "Vermont's public transit providers, along with numerous private transportation providers, play an essential role in helping older Vermonters get to medical services, social services, senior centers, community meals programs, grocery stores, drug stores, and shopping."

Aging in place increases the demand on transit providers to maintain the access of older Vermonters to all of those services. When an older adult lives in a remote country home, far from services, and does not have friends or family members to transport them, the cost to a transit agency to maintain access can be high. Of the $20 million in federal funds flexed from the STBG program, nearly $5 million goes to Vermont's O&D program. These funds are matched ($1 local for every $4 federal) with dollars from local agencies, as well as with in-kind services offered by volunteer drivers.

At this time, only a small percentage of people who are eligible for the O&D program (anyone 60 or older) actually make use of those services, but as the Baby Boom cohort begins to enter their 80s over the coming decade, it is likely that demand for this service will increase significantly, especially for those who choose to age in place. The State needs to prepare now for this increased demand.

Development Patterns

Consistent with the theme of derived demand, much of transportation demand is determined by land use choices. There is only a limited distance that people are willing to walk, and biking tends to be limited to pleasant weather, so that residential and commercial development that is spread out creates the demand for motorized transportation. Development that does not occur in linear corridors also undermines the ability to be served by efficient transit routes, reinforcing the need for people to own and operate automobiles.

Vermont has many policies regarding "smart growth" or "compact development" and has shown support for development in traditional village centers. Act 250 allows for some enforcement mechanisms for larger developments to combat sprawl. Nonetheless, almost all land use decisions are local and driven by developers and account little for regional impacts on transit providers. Development density can also be limited by constraints on municipal water and sewer systems which are costly and time consuming to overcome.

As a result, transit providers are often faced with a choice of trying to scrape together additional money to serve a trip generator that is not located along an existing route, or just forgoing serving that location at all. As is true for most of the topics in this section, public transit accessibility tends to be an afterthought in development decisions.

Opioid Epidemic

Vermonters have been suffering the effects of the opioid epidemic for years in terms of the lives taken or ruined by the drugs, the decline of public safety, and the cost to provide treatment. Part of that cost is getting people in recovery to treatment appointments to receive therapy and medication, usually on a daily basis.

Vermont has set up a hub-and-spoke network for opioid treatment with nine regional hubs and 75 local "spokes" for ongoing treatment. For people in recovery not living near one of the nine hubs, daily long trips are necessary, often provided by the local transit agency, because most of these patients cannot drive.

This study did not delve into how the hub-and-spoke network was designed, but it is clear that the public transit system, primarily paid for through the Medicaid program, is providing access to those locations, often from long distances.

Health Care

Beyond opioid treatment, the transit system is called on to provide access for a wide range of medical care. A portion of the O&D program is dedicated to "critical care" trips for treatments such as kidney dialysis (three trips per week on an ongoing basis) and cancer (which can be daily trips for a defined period of time). Only a limited number of hospitals provide these types of care, and thus trips from some parts of the state can be very long. Medicaid will cover trips for eligible individuals, and the O&D program will also cover trips, but sometimes with limits (such as a maximum of two dialysis trips per week). However many people in need of medical treatment do not have access to these programs and have no transportation resources. Pilot programs such as Rides to Wellness sought to fill those gaps and provide this essential mobility, but there is not enough funding available to meet all of the needs.

Climate Change

Public transit is also one of the solutions to reduce greenhouse gas emissions and lessen the effects of climate change. Bus routes which can carry 20 or 30 people at a time have the greatest impact on emissions, but such routes are only viable in the core of Chittenden County, the Upper Valley and a few other densely developed areas in the state. In order for bus routes in these areas to draw people out of their private automobiles, they must offer convenient, comfortable and safe service to riders, which means a long span of service and frequent trips, as well as new and reliable buses and attractive facilities that are well monitored and free from threats of violence. Such service is expensive to operate.

In rural areas, public transit can be positive for climate change if the vehicle fleet is electrified and trips are coordinated to the maximal extent. Comfort, convenience, and the awareness of service are all critical for generating riders in more rural areas.

Employment Access

Many Vermonters rely on public transit services to get them to work. Similarly, many employers rely on public transit services to allow their employees to reach their workplaces. During this time of very low unemployment, many employers in areas not served by bus routes voice the need for additional transit service to expand the pool of potential employees. Jobs go unfilled while low-income Vermonters are unable to apply for work because they have no way to get there. For many of these employment locations, it is not viable to operate a regular bus route, and vanpools can be difficult to organize and sustain, in spite of efforts like the Go Vermont program. Employers nonetheless look to transit agencies to somehow fill this gap.

Transit is essential to meet all of these societal needs, but the cost of doing so exceeds the existing availability of funding, even with the comparatively generous amount of money Vermont invests in public transit. The following chapters attempt to quantify the gap in funding in the coming years, both to sustain existing service as well as to expand service to address these needs.

4. SHORT-TERM FORECAST FOR TRANSIT FINANCE

This chapter presents analysis of the overall financial situation for public transit in Vermont over the next three fiscal years, 2025 through 2027. All forecasts such as this one require a number of assumptions, and the potential error in the assumptions rises with each subsequent year in the future. It is essential to note that ***these forecasts are primarly concerned with operating expenses, and they assume no expansion of service***, beyond a few isolated cases (mostly impending microtransit pilot projects). Other assumptions embedded in the analysis are as follows:

- State funding for transit operations ***will not decrease*** from the $9.85 million budgeted for FY25;
- Flexing of STBG funds for transit ***will not decrease*** from the $23.5 million budgeted for FY25;
- GMT will set urban fares and other operating revenue to generate 10% of urban operating expenses;
- The expenses for each provider include 20% match for anticipated capital investments.

The 20% match for capital includes both local and state funds. The state funds for capital match come out of the $9.85 million total. The relationship of capital expense to operating expense will be discussed further in Chapter 6.

Forecasts are presented separately for the rural areas of the state combined and the urbanized area in Chittenden County. All of the federal funding for the rural areas (Section 5311) flows through VTrans, while GMT is a direct recipient of federal transit funds (Section 5307). GMT is also the only transit authority in Vermont, and it alone has the power to assess its member communities for local funding support. For the near future, GMT-Urban will also be the only transit provider that charges fares. While it is still the case that VTrans has the discretion to shift state operating funds and federal STBG funds among the rural and urban areas, there are enough distinctions between the funding structure in the rural areas and that in the urban area to keep them separate.

Rural Areas

The financial forecasts for the rural transit providers (including GMT-Rural) were developed by asking VTrans to estimate future federal and state funding sources for rural operations and then asking each of the rural providers to estimate all local funding sources (including Medicaid) and all operating expenses. In addition, the local providers were asked to forecast capital expenses for the coming three years, including rolling stock (buses and vans), facilities, and other capital. A 20% share of the capital expense was added to the operating expense to represent the local and state share of the capital investment, which would come out of the local and state operating funds. Federal capital funds mostly come from another program (Section 5339) which tends to be more variable and is largely based on discretionary grants rather than formulas, though some capital expenses are paid with Section 5311 funds (see below for further discussion).

As shown in Table 2 below, the total amount of state and federal transportation money (not including Medicaid) available for public transit is forecast to range from $35.5 million to $36 million for the three forecast years. The current federal transportation law (Bipartisan Infrastructure Law aka Infrastructure Investment and Jobs Act) only runs through Federal Fiscal Year 2026, and thus the FY27 forecasts for federal funds are just a straight line extrapolation of the funding levels stipulated for FFY21-FFY26. The table shows that state funds are assumed to be flat through the three years, as well as the amount flexed from FHWA programs. The CMAQ and Section 5311 programs show a small amount of growth through this period.

Table 2 – FY 2025-2027 State and Federal Funding Forecasts

RURAL	FY25	FY26	FY27
5311 Rural Formula	$ 5,804,603	$ 5,914,695	$ 6,026,874
CMAQ	$ 3,850,000	$ 4,000,000	$ 4,150,000
Flexed FHWA funds	$ 19,500,000	$ 19,500,000	$ 19,500,000
State Operating General	$ 7,850,000	$ 7,850,000	$ 7,850,000
State funds for Microtransit	$ 175,000	$ 175,000	$ 175,000
AHS funds for Recovery/Job Access	$ 100,000	$ 100,000	$ 100,000
Total	$ 35,524,603	$ 35,784,695	$ 36,046,874

Table 3 shows the net need for federal and state funding for each of the rural transit providers as well as other services that make use of those same sources. For the transit providers, the figure for each year represents the total expected operating expense plus 20% of the expected capital expense less all of the sources of funding that are not federal or state transportation funds. These local funding sources include municipal contributions, private donations, and contracts with ski resorts, hospitals, colleges/universities and human service agencies. The local funding also includes Medicaid funds that flow through the Vermont Public Transportation Association, approximately $14 million per year statewide. Of course, the expenses also include the service provided to carry Medicaid passengers, and the program is assumed to break even each year, so that Medicaid does not have an appreciable effect on the bottom line. The figures for Advance Transit (AT) represent 26.7% of the total expenses for that agency, with the rest attributable to service in New Hampshire.

Table 3 – FY 2025-2027 Net Need for State and Federal Funding

Agency	FY25	FY26	FY27
AT	$ 1,837,876	$ 1,749,766	$ 1,891,487
GMCN	$ 1,693,940	$ 1,914,611	$ 2,242,840
GMT Rural	$ 7,079,661	$ 7,063,290	$ 7,334,545
MVRTD	$ 5,623,997	$ 6,903,108	$ 6,142,670
RCT	$ 3,824,000	$ 3,914,000	$ 4,054,000
SEVT	$ 5,201,510	$ 5,524,928	$ 5,976,343
TVT	$ 6,006,000	$ 6,215,200	$ 6,438,000
VABVI	$ 125,000	$ 130,000	$ 135,000
Intercity (Premier + Greyhound)	$ 1,250,000	$ 1,275,000	$ 1,300,000
VTrans administration	$ 975,000	$ 975,000	$ 975,000
Total	$ 33,616,985	$ 35,664,903	$ 36,489,886

Comparing the federal and state funding forecasts in Table 2 to the net need for federal and state funding in Table 3, one can see a small surplus in FY25, an essentially break-even scenario in FY26 and a deficit of nearly $450,000 in FY27. At this point, it must be noted again that none of the federal money shown in Table 2 is set aside for capital expenses. In recent years, of the the available Section 5311 funds, rural transit providers have spent $1.2 million in FY22 and $1.5 million in FY23 on capital expenses (not including preventive maintenance). Thus, the $1.9 million surplus forecast for FY25 will likely be spent on typical capital expenses (including $1.53 million in federal funds and $380,000 in matching state and local funds).

That surplus does not exist for FY26, so that the capital budget would be underfunded by about $1.8 million unless other federal funds (such as Section 5339) would expand to compensate for the reduction in 5311 capital spending. (See Chapter 6 for more discussion of capital funding.)

The deficit of $450,000 for FY27, while not a huge number compared to the program as a whole, represents just an operating deficit with an unstated capital deficit beyond it, and it should be interpreted as a warning for FY28 and the future. Unless the next federal transportation law increases the level of operating assistance for transit substantially, the annual increases in cost factors that are largely beyond the control of the transit providers will result in expanding deficits that will require either additional state funding or a new source of revenue.

Chittenden County Urban Area

The financial forecast for the urban portion of GMT is shown below in Table 4. This table includes both the revenue from all sources and the projected operating expenses (which includes local capital match). While the rural analysis showed a break-even position for FY26 and a small deficit for FY27, the GMT-Urban forecast shows a sizable deficit for both years. Indeed, were it not for a reserve of federal coronavirus relief funds from the American Rescue Plan Act (ARPA) and other 5307 funds, GMT-Urban would face a large deficit in the fiscal year starting next July.

Table 4 – FY 2025-2027 GMT-Urban Forecast

GMT URBAN	FY25	FY26	FY27
5307 Urban Formula	$ 3,625,957	$ 3,677,229	$ 3,740,878
Flexed FHWA funds*	$ 4,047,902	$ 3,748,419	$ 3,748,419
Other federal**	$ 881,619	$ 881,619	$ 881,619
State Operating Funds	$ 2,000,000	$ 2,000,000	$ 2,000,000
Local municipal	$ 3,803,258	$ 3,910,277	$ 4,068,322
Fare and other operating	$ 1,923,839	$ 1,930,339	$ 1,930,339
TOTAL REVENUE	$ 16,282,575	$ 16,147,883	$ 16,369,577
Reserved ARPA/5307 funds	$ 2,262,177	$ 1,463,658	$ -
TOTAL OPERATING EXPENSES	$ 18,544,752	$ 19,007,992	$ 19,619,604
NET DEFICIT	$ 0	$ (1,396,451)	$ (3,250,027)

* includes $2.1 million of STBG funds for preventive maintenance and the rest in CMAQ
** includes $355K in JARC funds, $400K in planning funds. $80K in mobility management and $46K in capital project management

For 25 years, GMT (and CCTA before that) benefited from the Federal Transit Administration's Small Transit Intensive Cities (STIC) program. This program provides bonus Section 5307 funding to small urbanized areas (population between 50,000 and 200,000) that operate levels of service and achieve ridership figures that are similar to those in larger metropolitan areas. There are a total of six STIC factors having to do with the amount of service, ridership and passengers miles on a per capita basis and other productivity measures. In the early 2010s, CCTA surpassed the threshold for five of the six STIC factors, but lost one in FY17 in the aftermath of the 2014 strike and general ridership losses in FY15 and forward. (There is a two-year lag between performance data and the awarding of STIC bonuses.) Because of pandemic-related losses in commuter ridership which sharply reduced the number of passenger miles, GMT lost another STIC factor in FY24. While each STIC factor was only worth about $150,000 a decade ago, they are now worth nearly $600,000. GMT is currently working with other agencies that operate transit service in the Burlington

urbanized area to get "credit" for passenger miles that have not been counted in the past. These additional passenger miles will allow the Burlington metropolitan area to regain the fourth STIC factor. It is thus possible (but not assumed) that the amount of 5307 funding will increase by about $600,000 beginning in FY26. This bonus would almost cut the FY26 deficit in half, but deficits after that remain large.

Other notable features of the table are that federal funding grows very slowly each year, certainly not keeping pace with increases in operating expenses. State operating funds are also assumed to be flat for the forecast period, while local municipal funds grow by 4% annually. GMT is in the process of reinstituting fares (expected to take place in March 2024). The new fare structure is quite different from the one in place at the time fares were eliminated because of the pandemic, and so the forecast of revenue is speculative. The amounts shown in the table represent the goal that fares and other operating revenue (such as advertising) account for about 10% of operating expenses.

It must also be noted that the total operating expense is also speculative since all of GMT's existing union contracts expire on June 30, 2024. Negotiations have not yet begun. A settlement that increases driver wages more than what was anticipated in these forecasts would create a larger budget deficit, unless other efficiencies could be found.

Under the assumptions described above and those embedded in the operating cost forecast, after breaking even in FY25 and having a moderately large deficit in FY26 by using the reserved ARPA and 5307 funds, GMT-Urban faces a substantial deficit of about $3.25 million going forward, and that gap is expected to grow. Without a new source of funding or expanded contributions from existing federal, state and local sources, GMT would be faced with service cuts in the urban area.

Statewide Summary

Table 5 below summarizes all of the financial analysis described above. It shows that absent the use of residual, one-time federal relief funds, *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.***

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)

Medicaid as Local Match

One of the topics researched in this study was the question of using non-emergency medical transportation (NEMT) funds, part of the Medicaid program, as local match for FTA program funds. It is clear from various policy statements that any *excess* NEMT funds can be treated as local match, but it was not clear whether NEMT funds that have been used to pay for passenger trips can also, at the same time, serve as local match for FTA funds. The question was posed to FTA officials, and the response was that all NEMT funds are eligible to serve as local match, whether or not they are used to pay for NEMT trips.

The availability of NEMT funds to serve as local match only becomes relevant if there is FTA money available that cannot be drawn down because of insufficient non-federal match. Given the amount of state and local money in the mix currently and for the foreseeable future, matching the available federal funds is not an issue. If FTA apportionments were to rise significantly, or if VTrans should decide to flex many more federal highway dollars to the transit program, then Medicaid funding may be needed to matchthose funds. Substituting NEMT funds for existing non-federal match is not an appropriate step to take, as this would draw down federal funds faster than the current pace and effectively reduce the amount of funding in the system overall.

5. POTENTIAL SERVICE EXPANSION AND COSTS

All of the discussion and analysis thus far has assumed that the amount of transit service in Vermont would remain essentially the same as it is today, with minor changes related to microtransit pilot projects. Chapter 3 described the many roles that public transit plays and the demands placed on the transit system to support other policies and environmental factors. This chapter discusses some of the ways the transit system in Vermont could grow to meet these demands, but all of these would require additional funding beyond anything described above.

Mobility for All

Over the past seven years, VTrans has been working to fill the gaps in the rural transportation network. Beginning with the Rides to Wellness program in 2017 and continuing with the Recovery and Jobs Access program in 2020, VTrans has used grant funding to establish pilot projects to provide transportation access for people who are not otherwise eligible for demand response transportation in rural areas. The 2020 Public Transit Policy Plan described a vision of a statewide demand response system that would be open to the general public, and the 2021 Transit Financing Study conducted by the Chittenden County Regional Planning Commission linked such a system to potential new statewide funding sources. The initiation of Gopher service in 2023, operated by Community Rides Vermont in Washington County, is another waypoint in creating a Mobility for All model in Vermont. Rural Community Transportation is actively studying the feasibility of Mobility for All service in its service area, perhaps beginning with a pilot project in Lamoille County and then expanding throughout the Northeast Kingdom.

Mobility for All can be thought of as a way to maximize the effectiveness of existing rural demand response service while simultaneously expanding transit access to all Vermonters. Vehicles currently operating demand response trips almost always have some seats available. If the current restricted programs can be folded into a broadly available program, then more people will see improved mobility and more seats on those vehicles will be filled. Allowing everyone to have access to that service is even more important if a new funding source for transit is a broad-based fee or tax that affects most or all households.

A 2021 study for the towns of Jericho, Underhill and Cambridge (the Tri-Town Study) examined a mobility for all service for those towns (among other transit options). Given the rural nature of those towns (and most of Vermont), it was assumed that the vehicles in service would mainly be operated by volunteer drivers. Recognizing the challenge in recruiting large numbers of volunteers, VTrans has been promoting the concept of "community drivers" who would be either volunteers or contract employees, similar to drivers for Uber or Lyft. It would be prohibitively expensive to operate a statewide rural demand response service exclusively with professional drivers working for the transit providers.

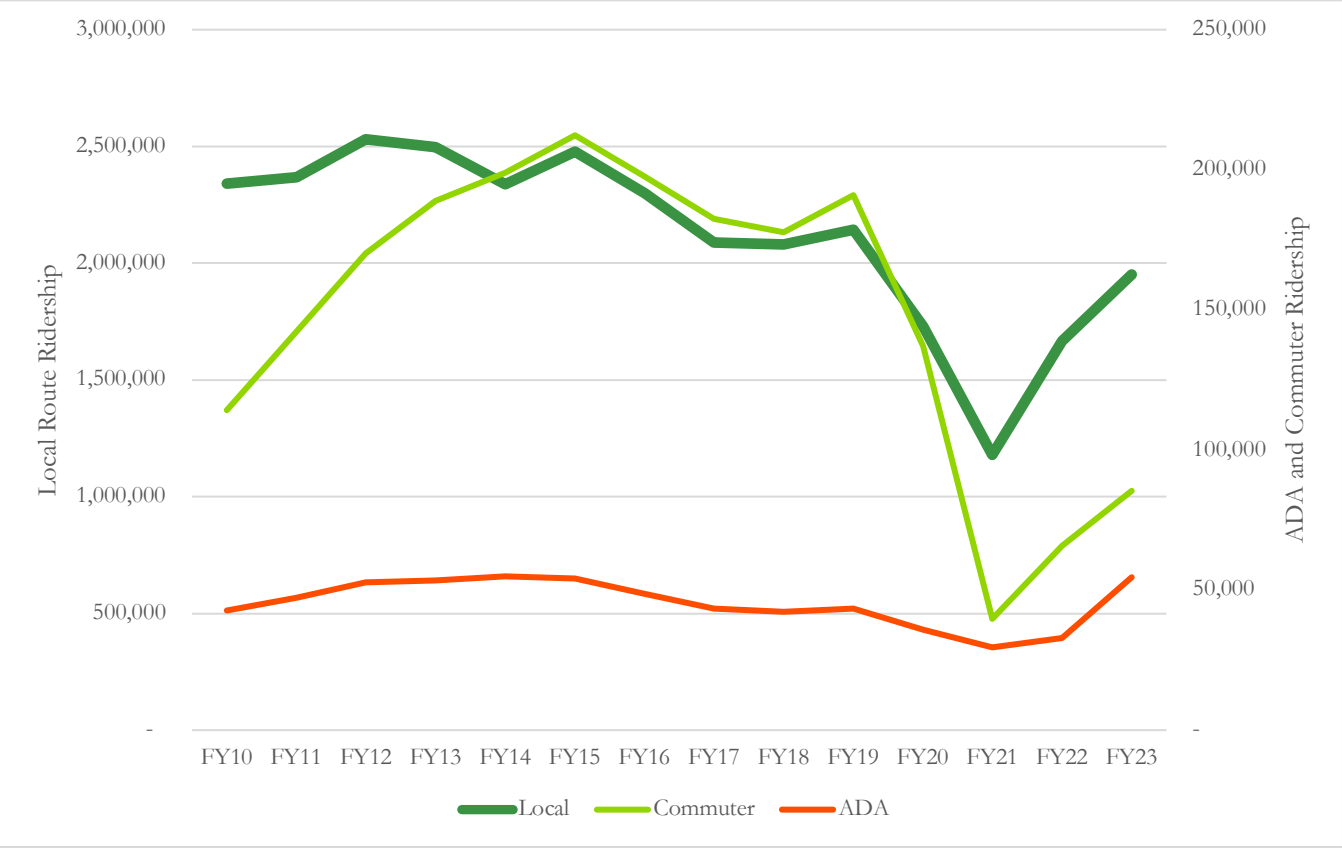
Extrapolating from the cost estimates developed for the Tri-Town Study, a statewide Mobility for All program would cost on the order of $13 million to $15 million annually. This figure would be in addition to the funds currently spent on Medicaid and O&D transportation, though there would be some savings in combining the programs, so the net figure for all rural demand response service would be less than the sum of all of these programs currently. More precise cost figures will become available before June 2024 as the planning work for Mobility for All for RCT proceeds.

Reinvigoration of Urban Service

The urban service operated by GMT (and CCTA before that) has faced challenges over the past 8 years. As shown in Figure 6 below, the urban service achieved its peak ridership in FY15 and has not come close to returning to that peak since. Local route ridership dropped gradually through FY19, most likely due to low gasoline prices but also other factors, including perceptions of poor customer service, and then plummeted

during the pandemic. The total for FY23 came close to the FY19 figure, but is still 21% below theFY15 figure. Commuter ridership was on a steep growth trajectory through FY15, then dropped through FY18, recovered a bit in FY19, and then fell off the table during the pandemic, losing about 80% of the ridership compared to FY19, even though no fares were charged during the pandemic. Even with a recovery in FY22 and FY23, the recent ridership total is still only 40% of the peak value in FY15. ADA paratransit ridership has been relatively more stable throughout this period. It also had its peak in FY15, but the FY23 total is almost exactly equal to the peak figure. Note that the scale for local routes is on the left vertical axis and the scale for commuter and ADA service is on the right vertical axis.

Figure 6 – GMT-Urban Ridership Trends by Mode FY10-FY23



Rider surveys taken periodically by GMT throughout this period demonstrated that the ridership pool became more and more dependent on public transit. In 2014, 45%% of riders said they had no car available and 27% said they could not drive. By 2017, 76% of riders said they had no car available and 46% said they could not drive. These figures indicate that riders who lived in households with cars available were leaving the system over the course of the decade. The loss of these "choice riders" affected commuter routes most strongly.

Returning GMT-Urban to the role and performance it had in 2015 is a complicated challenge and will be the subject of further study in other projects. However, three broad themes can be considered here at a high level to reinvigorate the urban service.

Key Corridors

GMT's local bus service includes four trunk corridors (North Avenue, Colchester Avenue/VT 15, Williston Road/US 2, and Shelburne Road/US 7) and other local services in Burlington, South Burlington, Winooski

and Williston/Essex. Service changes implemented in 2019 eliminated the pulse system that had been in place for decades and reduced peak service levels on the trunk routes but increased midday service and Sunday service. A re-evaluation of the key bus corridors could make service more attractive for riders and draw them back onto the system. This could involve greater costs for enhance service as well as investments in passenger facilities and roadway treatments to improve service speed and reliability. It is not possible to estimate the costs of these changes without a more detailed study, but a substantial improvement in service would likely cost at least $2 million annually.

Systemwide Microtransit

The emergence of transportation network companies (TNCs), such as Uber and Lyft, over the past decade has changed the way people—especially people under the age of 40—think about transportation. On-demand service accessed through a smartphone interface has become second nature to many young people, especially those with experience living in larger metropolitan areas.

Public transit's response to the TNC model is called microtransit and consists of a fleet of vehicles, usually vans, that respond to ride requests made through a smartphone app in real time and carry passengers directly from where they are to where they want to go, as long as both the origin and destination are within a defined service zone. Microtransit can also handle traditional demand response transportation, including standing (repetitive) trips and trips requested through a call center.

For the GMT-Urban area, systemwide microtransit can be introduced as an overlay on the fixed route system so that people who don't want to follow a fixed schedule and who may have a travel pattern that is not well served by bus routes (such as a trip from Essex to South Burlington) would have another option that may be more appealing. Existing ADA complementary paratransit service would be folded into this systemwide microtransit service, better fulfilling the spirit of the Americans with Disabilities Act to treat people with disabilities the same as other people. ADA riders would enjoy more convenient service than they do now, as they could request a ride in real time with little notice, rather than having to call for a ride a day in advance. In order not to "cannibalize" bus route ridership, the fare on the microtransit service would be double the bus fare (the same as the ADA paratransit fare[1]).

With a systemwide microtransit service in place, some of the weakest links in the fixed route system could be trimmed and those resources reallocated to improve service on the higher ridership corridors. Microtransit could also be a more cost effective way to provide service during low demand times in the evening and on Sundays.

A detailed study of microtransit service in the urban area has not yet been conducted, but a preliminary calculation indicates that the net cost increase would be $2.6 million annually. This figure nets out the existing cost of ADA paratransit and takes account of the additional fare revenue that would be generated.

Enhanced Safety and Security

The ongoing opioid epidemic and a shortage of staffing at police departments and social service agencies have contributed to a deterioration in the sense of safety and security on transit vehicles and in transit stations, such as Burlington's Downtown Transit Center. A lack of comfort and safety drives away transit riders who have other transportation options and has a negative impact on the experience of riding transit for those who must rely on the bus.

[1] When fares resume in the Burlington area, the adult cash fare for buses will be $2 and the ADA fare will be $3, but federal regulations allow the ADA fare to be up to double the regular bus fare.

There are no simple solutions to societal issues about drug use and crime, but additional resources could allow GMT to establish its own security staff in order to reassure riders about safety and reduce cases of disruptive behavior. It is important to note that security issues are not limited to the Burlington metropolitan area. All of Vermont's rural transit providers also deal with disruptive passengers and problems associated with drug abuse. Transit's role in assisting people with opiod addiction, as discussed in Chapter 3, places it on the front line in the state's opioid epidemic. Security cameras and enhanced communication systems can help protect drivers and other passengers from potential harm.

6. CAPITAL INVESTMENTS

The majority of the financial analysis in this report has focused on operating costs. It was noted in Chapter 4 that in the recent past, a portion of the rural Section 5311 funds has been used for capital expenses such as new vehicles, equipment and facilities. In the urban area, a portion of Section 5307 funds is also used for capital expenses (about $400,000 in Fiscal Year 2023 plus another $2.1 million on preventive maintenance). The analysis in Chapter 4, though, shows that in future years, even using 100% of Section 5311 and 5307 funds for operations will not be sufficient to sustain existing service, and doing so would leave a significant and growing gap in capital investment.

Relationship of Capital Investments to Operating Costs

When budgeting funds that can be used either for operating or capital costs, agencies tend to give priority to operating costs because otherwise they cannot run their full complement of service. Capital investments in new vehicles, equipment and facilities are not typically seen as equally time-critical; managers can "make do" with extending the life of an old vehicle or "live with" an inadequate facility for another year if there is insufficient funding for a new purchase.

Deferment of capital investments may save money in the short term on the capital side, but it has negative impacts on the operating budget and the longer-term capital budget. Extending the use of a vehicle that has been on the road for its expected lifespan will require much higher maintenance expense than a new vehicle would. It is also more likely to break down during revenue service, requiring additional spending to tow it (potentially) and substitute another vehicle for the remainder of the run. These are all additional operating costs that need to be absorbed by the budget. Deferred investments in facilities could result in higher maintenance costs, as small problems turn into larger problems if they are not addressed in a timely way. Construction costs only seem to go in one direction (up) so that work not done this year will almost certainly cost more next year.

Backlog of Capital Plant

This study did not include a detailed look at capital needs, but the recently completed (September 2022) Transit Asset Management Plans for GMT and for VTrans (covering all of the state's rural providers) provide an accounting of the state of Vermont's transit vehicles and facilities. Based on the age, mileage and condition of vehicles in June 2022, there was a backlog of over $23 million to replace GMT's vehicles and $11 million to replace rural vehicles that were beyond their "useful life benchmark." A significant number of vehicles have been procured since then, but other vehicles in the fleet have also crossed that threshold in the past 18 months and so the backlog is likely not much smaller today.

Over the past few years, a new maintenance facility has been constructed by Tri-Valley Transit in Bradford and The Bus recently opened a new administrative facility in Rutland. GMT is studying a new facility in Washington County to replace the one in Berlin that has been repeatedly damaged by floods (at least $5 million), and SEVT is planning a new facility in Brattleboro (at least $4 million). At the same time, GMT has yet to rehabilitate the facility at 31 Queen City Park Road that it purchased several years ago (at least $3 million), and TVT's maintenance facility in Randolph is in poor condition. Other agencies are also considering new or expanded facilities.

In summary, there is no shortage of capital needs among Vermont's transit providers. Making these investments will save operating funds in the future.

Fleet Electrification

VTrans has been aggressively encouraging transit providers to convert their fleets to electric vehicles. Special federal grants are available for this purpose, and the conversion will both reduce the greenhouse gas and air pollution impact of transit operations and make the services more attractive to passengers who care about the environment.

This conversion is very expensive, though, in a number of ways. The vehicles themselves are more costly than traditional diesel buses or gasoline vans; sometimes nearly double the price. Any agency running electric vehicles must also invest in charging infrastructure, which may entail significant modifications to storage facilities. There is also a significant expense associated with training maintenance staff in dealing with new technology and high voltage systems. Procuring these vehicles is more complicated because of the need to coordinate with so many parties, including those listed above and electric utilities. There is also a planning element to incorporating electric vehicles in the fleet, as they typically have a shorter range than traditional transit vehicles, and so may not be able to run a full day of service on a route that runs for many miles.

While it is a priority of the State to promote the conversion, the increased costs associated with it cannot be denied. These costs show up in the need for more federal grants, more state money, more local match, and more staff resources.

Financing Capital Investments

The financial analysis in Chapter 4 included estimates of local and state match for capital projects, since that money would come out of the same pots that were included in the accounting of operating expense. The federal portion of capital investment was not included, other than noting that a portion of 5311 and 5307 funds have been used for capital projects.

The main federal source for bus capital projects is the Section 5339 Bus and Bus Facilities Program. The program includes formula funding for the states and two competitive programs: grants for buses and bus facilities, and Low or No Emissions Grants (referred to as Low-No). The Bipartisan Infrastructure Law allocates about $650 million annually for the next three years for the formula funding, $400 million annually for the competitive bus grants and $1.127 billion annually for the Low-No program. Vermont has thus far been very successful at obtaining Low-No grants, having received over $22 million in FY 2023 alone. Low-No projects have a reduced match requirement of 15%, compared to 20% for most capital funding. Vermont also receives about $3.5 million in formula funding in this program.

Also available is the Section 5337 State of Good Repair Grant Program. The total national allocation for FY 2023 is $4.18 billion. This program is oriented toward fixed guideway (rail) systems and "high-intensity motorbus" systems in urbanized areas. It is likely that in Vermont, only GMT would be eligible for funding under this program.

Unlike Section 5307 and 5311 funding, the majority of capital funding is distributed through competitive grant programs. This requires staff capacity to research and write the grant applications and some good fortune to out-compete other states and metropolitan areas. Given that little or no 5307/5311 funding will be available for capital projects under the existing funding framework, more attention will need to be placed on applying for these competitive grants so that the backlog for capital projects does not get even larger.

7. POTENTIAL NEW/EXPANDED FUNDING SOURCES

As mentioned in Chapter 1, this report is far from the first time that new funding sources for public transit in Vermont have been considered. To date, none of the prior studies have resulted in any significant changes to the funding mechanism for transit, with the system continuing to rely on a combination of federal transportation funds, state money from the Transportation Fund, Medicaid, and local sources including municipal budgets, institutional partners, ski resorts and human service contracts. This chapter updates research from prior studies and presents a new list of potential funding sources. These sources are evaluated at the end of this chapter and then assembled into recommendations in the next chapter.

Review of Prior Studies

The most recent study of transit financing was the 2021 study commissioned by the Chittenden County Regional Planning Commission. That study examined eight potential sources of funding for transit, none of which were related to transportation. The study adopted a principle of "we all pay a little" (WAPAL) rather than a principle that had guided many previous efforts of "someone else pays" (SEP). Many prior efforts rejected new taxes or fees that would affect all Vermonters, preferring those (such as a rental car tax) that would primarily affect people from out of state. The present study is different from the 2021 study in that it explicitly includes transportation-related fees and considers options that fit under both the WAPAL and SEP principles. The eight options considered in the 2021 report were as follows:

- Sales Tax
- Payroll Tax on Employers
- Business Revenue Assessment
- County Property Tax
- Income Tax
- Utility Fee
- Property Transfer Tax
- Mortgage Recording Fee

Among these, the ones rated the highest were the utility fee, county property tax and property transfer tax, and thus these three have been carried forward into this report.

The other recent study was conducted in 2015 as part of the Act 40 study commissioned by the Vermont legislature. The Act 40 study evaluated transportation funding in general, not just for public transit, and thus the transit funding report discussed several options that would be conjoined to road and bridge funding. Ten specific options were included in the final evaluation table, including the following:

- Set-aside for transit from new statewide revenue
- Carbon pricing policies
- Member assessments from new regional transit authorities
- Dedicated regional sales or payroll tax
- Local vehicle registration fees
- Local mortgage recording tax
- Local development contributions
- Fare revenue
- Employer unlimited access programs
- Local Option Sales Tax

Conjoining Transit and Roadway Revenue Increases

For many years, transportation officials have been talking about a slow-moving crisis in transportation funding. The value of the primary traditional source of funding—the gasoline tax—has been eroding over time for two main reasons. Politicians have been very reluctant to raise the gasoline tax (the federal tax was last raised in 1993, and Vermont last raised it in 2013 when faced with a critical lack of local match for federal highway funds) because it is a highly visible tax and also a regressive tax, affecting low-income people more than the affluent. At the same time, increases in fuel efficiency in the vehicle fleet and the growing share of electric and plug-in hybrid vehicles have resulted in fewer gallons of gasoline being sold. (The volume of gasoline sales in Fall 2023 was about 24% lower than the peak that occurred about 20 years ago.) Both the federal and state government have had to supplement funds from transportation sources with money from the general fund to maintain sufficient funding for all transportation programs.

Most of the State's funding for public transit has come from the Transportation Fund (T-Fund) which is based on fuel taxes, registration and license fees, and the purchase and use tax for vehicles in roughly equal proportions. One option is to maintain this connection between transit funding and road/bridge funding and to work to create expanded resources for all transportation programs. Several of the options discussed below could funnel money into the T-Fund which could then be apportioned between transit and other transportation. A new source of funds that is seen nationally as a replacement for the gasoline tax is a fee based on vehicle miles of travel, or VMT.

VMT Fee

Many states are researching the possibility of implementing a VMT fee to replace or supplement the gasoline tax. As described on the Eno Center for Transportation website, there are four states with active programs, ten states with pilot projects, and several other states in the planning and research phase. Oregon and Utah were the first to implement programs, followed by Virginia and Hawaii, just in the last two years.

In Oregon, drivers of some 700 cars (out of 3.4 million registered statewide) have chosen to have mileage trackers installed and pay 1.8 cents per vehicle mile traveled. In return, they get a rebate on the motor fuel taxes they have paid at the pump. An article from April 2021 indicates that the state is considering expanding the program and making the VMT fee mandatory for owners of fuel-efficient cars and trucks (better than 30 MPG) or those that do not use gasoline, beginning in 2026. The program is administered by three private companies that manage the GPS-based mileage trackers.

In Utah, the state enacted an annual fee for alternative-fuel vehicles ($120 in 2021) since these vehicles pay little or nothing in regular fuel taxes. The current program (as of January, 2023) applies only to fully electric vehicles (the program formerly included hybrids) and includes a flat fee of about $130 or a per-mile rate of one cent per mile. The mileage-based fee is capped at the flat fee.

Virginia offers drivers of fuel efficient vehicles (over 25 MPG) the option of a flat highway use fee or a "Mileage Choice" program that involves installing a mileage tracker in the vehicle. As in Utah, the user is guaranteed that the mileage-based charge will not exceed the flat fee, so that if the driver accumulates more miles than expected, he or she is no worse off than if they had selected the flat fee.

Hawaii's program will go into effect in July, 2025. It offers drivers a choice between a $50 flat annual fee paid at registration of an EV, or a charge of $8 per thousand miles driven. Hawaii plans to transition all vehicles to the "road usage charge" by 2033.

National research indicates that rural drivers tend to be better off under a VMT fee compared to fuel taxes because of worse gas mileage among vehicles owned by poor rural residents. While many people have

privacy concerns about a GPS-tracking device in their car, it can be a selling point for others because it offers a way to locate a vehicle that may have been stolen or just misplaced in a large parking lot.

Vermont is not currently among the states poised to impose a VMT fee. It would make no sense to undertake such an effort solely on behalf of public transit, but if the State decides that it is necessary to move to a VMT fee to replace or supplement the gasoline tax, then public transit can benefit from it, just as it does today from other revenue sources in the T-Fund.

State Aid for Town Highways Incentive Program

With respect to a VMT fee or any other new source of revenue that could be directed into the T-Fund and thus assist all modes of transportation, it would be possible to establish a means of enhancing the flow of dollar to public transit using an incentive program. One of the topics discussed in the 2015 legislative study was an incentive program using the State Aid for Town Highways program. One reason to focus on this program is that current statute allows these funds to be used "as the non-federal share of public transit assistance." (19 V.S.A. Section 306(a)(5)) It may not be overstating the case to say that this program is beloved by Vermont cities and towns as a critical source for local road and bridge maintenance.

Page 16 of the 2015 report suggested the following mechanism as an incentive program for public transit:

> [T]he State, using some new source of funds, could offer municipalities up to $1,000 per roadway mile in new funding through the State Aid program.[2] As an incentive to increase support for public transit, the State could offer the town the full $1,000 per mile if the town agrees to allot 40% of that funding ($400 per mile) to public transit, leaving $600 per mile for roadway improvements. If the town does not agree to allot the 40% to public transit, then it would receive only $400 per mile total for the roadway improvements, and the rest of the money would be redistributed to other towns. Under this scheme, the public transit provider would be the beneficiary of a substantial new source of funds, and the roads in the towns would also benefit from improved maintenance.

The figures quoted above are just examples, and more detailed study would be needed if the State decided to implement such a program. However, this could be applicable to a wide range of new funding sources that would benefit both transit and roads.

Geographical Scope of Potential Sources

The financial analysis in Chapter 4 divided the state into two parts: the Burlington metropolitan area and the rest of the state. The conclusion of that analysis was that, given the current allocation of State funds and flexed FHWA funds between the urban area and rural areas, the majority of the shortfall in operating funds for the coming three-year period occurs in the urban area, though the rural area faces increasing deficits from FY 2027 onward. This analysis concerned only existing operations. In Chapter 5, expansion of service was discussed to meet additional needs, and in this case, more funding was needed for the rural area to establish a statewide Mobility for All program ($13 to $15 million) than for the urban area to reinvigorate transit service (up to $5 million).

This division in current financial need for the existing system and funding for future expansion raises the question of whether new revenue sources should apply just in the Chittenden County urbanized area or statewide. Some of those discussed below suggest a strong connection to the urbanized area (such as the Burlington airport fee), while others could be implemented either statewide or in the urban area.

[2] The funding formula is actually more complex than this and provides funding at different rates depending on the mileage in different classes of road. This example is simplified.

Potential Revenue Sources

A total of 14 options are described below; eight of them related to transportation and six of them unrelated. Several of these have been considered in prior reports, though others are new concepts that have just emerged in the past few years. For the purpose of this analysis, to better facilitate direct comparisons between the options, each of the taxes or fees is set at such a level that it would generate about $3 million per year, close to the amount needed to cover the majority of the operating deficit for both the urban and rural areas in SFY 2027. Ultimately, the number of revenue options selected and the levels at which they are set will reflect the degree to which the legislature wants to see the transit system expand to address the needs discussed in Chapter 5 as well as expand the availability of funding for road and bridge programs.

Transportation-related Taxes

Gasoline Tax

The current gasoline tax in Vermont is 32.94 cents per gallon and consists of an excise tax of 12.1 cents per gallon, one cent per gallon distributor fee, 7.95 cents per gallon Motor Fuel Transportation Infrastructure Fee and a sales tax on the retail price (net of state and federal taxes) that amounts to about 11.9 cents per gallon. The tax was last changed in 2013, when the legislature, facing a serious shortfall in matching funds for federal highway grants, implemented several changes including reducing the excise tax and establishing the sales tax so that when gas prices rose, the tax would generate additional revenue. The price that would trigger the increase in revenue is about $3.87 per gallon, meaning that with the exception of 2022, the sales tax has not had an impact on the price (since the legislature set a minimum floor for the sales tax).

An administratively simple way to increase revenue for the T-Fund would be to raise the gasoline tax. Each penny of additional tax would generate about $2.86 million statewide. There would be essentially no extra administrative costs associated with this revenue. While these are factors in favor of this source, there are several important downsides in that the tax is regressive, it is forecast to decline over time (necessitating future increases to maintain level revenue), and history tells us that the legislature is reluctant to raise it unless faced with an impending crisis.

Vehicle Registration Fee

As of January 1, 2024, vehicle owners in Vermont pay an annual registration fee that averages about $91. This fee rose about $17 from the level in 2023. Registration fees apply to cars and trucks, but also trailers, motorcycles, boats and other vehicles. In New Hampshire, cities and towns collect vehicle registration fees and the State allows them to add $5 to the fee as a local option to help support transportation projects, including public transit. In Vermont, registration fees are handled directly by the State, and while it would be possible for the legislature to adopt a local option fee similar to New Hampshire's, it is more likely that if the fee were raised, it would apply statewide.

A $5 increase in vehicle registration fees for cars and trucks would generate about $2.9 million annually. This revenue source is likely to be more stable over time than a gasoline tax, since electric vehicles pay a similar registration fee to fossil fuel-based cars. As with current registration fee revenue, this additional money would flow into the T-Fund.

The vehicle registration fee as currently assessed is regressive, since low-income people with a car pay the same fee as affluent people with a car. It would be possible to make the fee more progressive by transitioning to an "ad valorem" fee, in which the amount of the fee is tied to the value of the car. The State would need to determine a simple way of calculating the value of the vehicle, perhaps combining data from Kelley Blue Book values with a general condition assessment performed during the annual inspection. Moving to ad valorem would raise the administrative cost of the fee, but otherwise implementing an increase to the fee would have no significant costs or administrative burdens.

In the national literature about vehicle-based fees, it is pointed out that raising the costs associated with driving can help encourage people to use public transit instead. As a practical matter in Vermont, the service level of public transit in high enough only in the core of Chittenden County to serve as a viable alternative to driving for a wide range of trips. It is also the case that an additional $5 per year will not convince anyone that it is time to give up driving and start riding the bus. Thus, although one could make the case that the increased fee should apply only in the Burlington metropolitan area, the fee would need to be substantially higher to generate the desired $3 million (about $30 per year instead of $5). Property owners in GMT's member municipalities already pay nearly $4 million in local property taxes to GMT.

Retail Delivery Fee

E-commerce has been a growing trend for more than two decades, and it was supercharged during the pandemic when many people shifted to shopping online rather than visiting brick-and-mortar stores. Every online purchase of a physical good, however, entails a delivery, and the number of packages delivered by the US Postal Service, UPS, Fedex and other services has grown tremendously. These delivery vehicles plying every road in Vermont have added to maintenance costs and accelerated the deterioration of roads and bridges.

In 2022, Colorado established a first-in-the-nation retail delivery fee. It assess a 28-cent fee "on all deliveries by motor vehicle to a location in Colorado with at least one item of tangible personal property subject to state sales or use tax." The revenue is used for a range of transportation purposes, including fleet electrification, public transit, bridge and tunnel repair, air pollution mitigation, and community access. The fee is expected to generate $18.8 million in the current fiscal year.

Minnesota became the second state to establish a retail delivery fee in 2023, with the law taking effect in July, 2024. The fee will start at 40 cents per delivery and ramp up to 50 cents by 2027. The Minnesota law exempts transactions under $100, food, drugs, medical devices and baby products. Sellers with annual retail sales under $1 million are also exempt from the fee. The fee can by paid by the purchaser or the retailer. The fee is projected to generate $128 million by FY 2027, which would be split between the Highway User Tax Distribution Fund ($77 million) and the Transit Assistance Fund ($51 million).

Using information from Colorado and Minnesota, it is estimated that a 40-cent retail delivery fee in Vermont, following the same general guidelines as the other two states, would generate just over $3 million annually. These funds could be directed to the T-Fund, they could be dedicated to public transit, or they could be split as the other states have done. The fee would be collected from online retailers in a similar manner to how sales tax is currently collected. Because the retail delivery fee is a new concept and there is only limited experience with it, more detailed study would be needed to refine the policies and revenue estimates.

Administrative costs for this fee would be higher than for the gasoline tax or vehicle registration fee, and new reporting systems would need to be set up. It would not be as easy to implement administratively as the other fees considered above, since it is not just changing the rate of an existing fee. The stability of the revenue from the fee is likely to be inferior to the vehicle registration fee, as the volume of deliveries varies with economic conditions. As a flat fee, it is mildly regressive, though affluent households are likely to receive more deliveries from e-commerce companies than low-income households. Exempting low-dollar purchases, food, medicine and baby products helps to make the fee more progressive.

Burlington Airport Fee

Passengers traveling through airports are subject to a number of fees and taxes. "Passenger Facility Charges" apply a fee for each passenger boarding at an airport. Revenue from these fees is typically used for capital projects and maintenance at the airport, but there have been cases where these charges have been used to

support public transit projects. TCRP Report 129 cites three examples in Minneapolis-St. Paul, Portland (OR) and Warwick (RI). In each case the fee supported a rail extension or rail station at the airport.

In order to generate the target $3 million, the per-passenger fee at Burlington International Airport (BTV) would need to be $5. Many Vermonters use BTV, but plenty of residents of Quebec use it as their "home" airport and visitors from all over the country fly into Burlington for business or pleasure. The fact that the majority of the near-term operating deficit statewide is related to operations in the Burlington metro area lends some appeal to a revenue source located in the Burlington area. The fee can be viewed as moderately progressive since few low-income Vermonters use the airport regularly. As a new fee, the administrative costs and burden would be somewhat higher than the gas tax and vehicle registration fee, but lower than the retail delivery fee.

If the revenue were to be dedicated to public transit, it would almost certainly be necessary to upgrade the level of transit service at the airport. Currently, GMT serves the airport with one bus route that operates every 45 minutes (every 75 minutes on Sundays). Historically, the airport has never generated a significant amount of transit demand, with daily boardings at the airport bus stop never exceeding 20. A microtransit service that offered one-seat rides to anywhere in the service area, with priority placed on the airport stop so that a vehicle would arrive there within 5 minutes of a trip request, would be much more attractive than the current bus service.

Rental Car Tax

A tax on rental cars has historically been judged as one of the more attractive revenue options since it is assumed that the burden of the tax would fall mainly on non-residents. Vermont currently charges a 9% tax on car rentals. In order for the tax to generate $3 million per year statewide, it would need to be raised by half, to a rate of 13.5%. A potentially attractive feature of this tax (similar to the airport fee) is that a large portion of car rentals occur in the Burlington area and are associated with visitors arriving at Burlington International Airport. Since this tax would just involve changing the rate of an existing tax, it would be simple to administer and involve no extra administrative costs. However, the major increase in the rate needed to get to $3 million suggests that this tax may be part of a package of other taxes with a lesser emphasis on this one.

There are no data available on the income profiles of people who rent cars, but this tax would likely be moderately progressive, as many people paying it would be business travelers and other visitors. Some low-income people rent cars when their own vehicles break down, but it is unlikely that they represent a substantial portion of all renters.

Tire Fee

Vermont is one of only 11 states that do not charge a fee for each tire sold. For whatever reason, these fees are relatively rare in New England, with only Maine ($1 per tire) and Rhode Island (50 cents per tire) imposing this fee. The 39 states that do charge a fee range from 25 cents (Kansas) to $2.50 (New York and Alaska), with the majority of states charging between $1 and $2 per tire. In most cases the revenue collected from the tire fee goes toward the costs of recycling or disposing of used tires in an environmentally responsible way. Some states, such as Washington, charge an additional fee for studded tires, justified by the additional road damage they cause.

It is not known how many tires are sold each year in Vermont, but studies by the EPA cited in a 2013 report to the Vermont legislature estimate roughly 1 tire per resident per year. In order to generate the target $3 million, the Vermont tire fee would need to be at least $4.50 per tire, which is more than double the vast majority of existing fees in the US. As noted in the 2013 report, Vermont has a problem with scrap tires,

and so it would be a challenge to impose a large fee on tire sales and then not have any of the revenue go to remediate the scrap tire problem.

The tire fee would be regressive, as low-income people use tires at the same or higher rate than more affluent people. As a new fee, it would also have administrative costs and burdens attached to it, but it would be a relatively stable revenue source. If the legislature were to decide to pursue a tire fee, it would likely be at a lower level (in the $1 to $2 range) and packaged with other fees to reach the overall desired revenue target.

Downtown Burlington Parking Tax

Among the fees and taxes that would promote the use of public transit over driving, the most effective would be a parking tax imposed in downtown Burlington. As mentioned earlier, there are few areas in the state with a robust enough transit system to offer a viable alternative to driving. Downtown Burlington has by far the highest density of transit service in Vermont, and it is a walkable area with dense development, sidewalks, pedestrian signals, and the Church Street pedestrian zone. Downtown Burlington is also one of the few places in Vermont where most of the parking has a fee attached to it.

Based on a 2015 study of parking in Burlington, it is estimated that about 5,000 cars are parked in downtown Burlington on a daily basis among public on-street, public off-street and private off-street parking. Assuming that a fee would apply only Monday through Saturday, a charge of $2 per parked car would generate about $3 million per year. It must be noted that this fee would double the charge for many current parked cars. However, a noticeable increase in parking fees would make it more effective as an incentive to switch to public transit.

As with any discussion of increased parking charges, this proposal will be fiercely opposed by merchants within the designated downtown zone where the fees would apply. However, increased parking charges coupled with enhanced transit service would likely benefit downtown merchants and residents by reducing traffic congestion and pollution from cars and increase the safety of walking and biking in the downtown area.

The fee would be moderately progressive, as many low-income travelers to downtown Burlington already use GMT service. The administrative costs and burdens for this proposal would be high, as whole new reporting requirements would need to be established for private parking facilities. Because the estimates in this study are based on 2015 data, new research would need to be conducted to compare current conditions to what was observed eight years ago.

Urban Road Fee

The final transportation-related fee is also focused on the Burlington metro area. An urban road fee would be a charge on anyone driving into the core of the metropolitan area. The simplest way to envision this would be toll booths on Interstate 89, perhaps located between exits 11 and 12 for northbound vehicles and between exits 16 and 14 for southbound vehicles. Based on recent traffic volume data, the toll would need to be roughly 20 cents per vehicle in order to raise the target $3 million.

From an economist's perspective, a charge for driving into the most congested area of the state makes sense so that drivers pay for some of the external costs they impose on others, in terms of congestion and air pollution. However, from a practical perspective, this concept would face enormous hurdles. The costs to impose tolls would be high, even if technological solutions such as transponders and license plate readers were used instead of traditional gated booths. Though the 20-cent toll would not be expensive, some people may use alternate routes to avoid the toll, spreading the congestion to other roads. Vermont has never had tolls on interstate highways, and most Vermonters would see it as an urban concept improperly imposed on

a rural state. The administrative costs would be high, and a campaign to educate Vermonters about the tolls and encouraging them to obtain E-ZPass transponders would also be expensive.

The urban road fee is a clear case where theory and practice are in direct conflict.

Other Taxes and Fees

Utility Fee

A utility fee was discussed in some detail in the 2021 Transit Financing Study. Indeed, it was scored as the best option among the eight considered in that report. With the revenue target in that report being $21 million, the fees proposed there were $3 per household per month plus $14 per commercial account per month, or alternatively a fee of about 0.55 cents per kWh (except for industrial users). In this report, a "starter" fee of 40 cents per household per month plus $2 per commercial account per month would generate the $3 million annual target revenue.

The arguments in favor of a utility fee are that as the vehicle fleet becomes electrified, it makes sense to add a fee to electric bills to replace the gasoline tax, and that a modest fee ($4.80 per household per year) generates a substantial sum, fulfilling the goal of the WAPAL principle. The utility fee is also in line with the requirements of Tier III of the Renewable Energy Standard, which, as the 2021 report stated, "requires utilities to support 'energy transformation projects,' defined as projects that reduce fossil fuel usage by customers of the utility. Utilities must spend an increasing amount on energy transformation projects, beginning with 2% of their annual retail electric sales in 2017, growing each year by two thirds of a percent until reaching 12% in 2032. Public transit projects are eligible for funding under these definitions, but to date none have been funded." It may be possible to allow utilities to earn Tier III credits by supporting the administration of a utility fee to fund transit service.

The challenge of the utility fee is the process of establishing it and the need to coordinate with 17 utilities across the state. The first step would be for the legislature to require the Public Utility Commission to study the fee, since the PUC would be the agency to impose it (rather than the legislature directly). If those hurdles are overcome, the revenue could flow into the T-Fund or it could go into a new fund dedicated to public transit.

If the utility fee were designed as a flat fee, it would be mildly regressive, but since it is so small, at least at the beginning, no significant harm would be done to low-income households (some of which already receive relief on their utility bills). There would be administrative costs associated with the fee, especially at start up. Among all of the fees and taxes studied in this report, it may have the greatest stability and potential for growth, especially if it is imposed as a small per kWh fee (which would also make it more progressive as larger houses tend to use more power). By applying it to households and businesses, the burden is spread more widely and employers would pay for a share of transit service.

Room and Meals Tax

Like the rental car tax, the room and meals tax has been a focus of prior studies since it is assumed that non-residents would pay a substantial portion of the tax. The current room and meals tax is 9%, but 25 municipalities take advantage of a 1% local option tax for room and meals, and another 3 towns for rooms only, to raise the overall rate to 10%. All of the communities in the Burlington metropolitan area, except Burlington itself, have imposed the 1% local option tax through the State. In these cases, the State collects the additional 1% tax and returns 70% of it to the municipality, less some fees.

Burlington has a separate tax, called the Gross Receipts Tax, established in 1986 and renewed in 1990 through the Restaurant, Hotels, Amusements and Admissions Taxes Ordinance. The Gross Receipts Tax imposes a 2% charge on the gross receipts of all restaurants, hotels and motels, amusements (such as

arcades, bowling alleys, etc.), and admissions (to cinemas, sporting events, exhibitions, etc.). Thus, while it appears on the Vermont Department of Revenue website that Burlington does not have a local option tax, it actually has one that is double that of the surrounding towns. In theory, Burlington could adjust the rate of the Gross Receipts Tax to generate additional revenue to support public transit, but it has not done so for over 30 years, so it cannot be assumed.

In order to generate the $3 million target on a statewide basis, the room and meals tax would need to be raised by 0.12 points (from 9% to 9.12%). For those towns that have local option taxes, the rate would go from 10% to 10.12%. As with other alternatives that just require changing the tax rate, there would be no administrative costs or burdens associated with this additional revenue. In terms of equity, it could be seen as moderately progressive as low-income Vermonters are less likely to rent hotel rooms or spend large amounts of money at restaurants. On an annual basis, the room and meals tax is relatively stable, even if there are significant seasonal variations in the revenue stream.

Property Transfer Tax

The property transfer tax is paid by buyers in all real estate transactions in Vermont. The existing property transfer tax is 0.5% of the first $100,000 of a property's value and 1.45% of the remaining portion of the value. For homeowners using mortgages financed by the Vermont Housing Finance Agency (VHFA), the first $110,000 of the property's value is exempt from the tax and the next $90,000 is taxed at 1.25%. Value above $200,000 is taxed at 1.45%.

In order to generate $3 million, the base rate would need to be raised by 0.08% (from 0.5% and 1.45% to 0.58% and 1.53%). This increase in the tax is not insignificant but is still relatively small compared to the overall cost of purchasing real estate, and its perceived impact may be diminished by the large amount of other closing costs that appear on a real estate settlement statement.

As discussed in the 2021 study:

> The tax is generally progressive in that it is tied to the value of the real estate, and the current structure applies a lower rate to the first $100,000 of value. It also does not apply to most low-income Vermonters who are less likely to purchase real estate in general. Over the span of many years, it mostly follows the WAPAL principle, but in any given period of time, it falls squarely on those purchasing property, while those renting or staying in their current homes pay nothing.

There would be no administrative costs or burdens associated with this new revenue, since it is just a matter of changing the rate on an existing tax. The revenue source would be fairly stable, but less so than several other options, such as the utility fee and vehicle registration fee. In the near term, the real estate market is considered to be in a "frozen" state as there are relatively few properties for sale and many owners do not want to move since current mortgage rates are much higher than their existing loans.

County Property Tax

The 2021 study included a thorough discussion of the county property tax, reproduced here:

> Vermont has little in the way of county government outside of the judicial system, but there are mechanisms within Vermont statute for counties to impose taxes and assessments to fund the courts and potentially other functions. More research would need to be done if this option were to be pursued, but experts in the Joint Fiscal Office have indicated that property taxes can be levied at the county level and collected along with municipal taxes through existing homeowner property tax bills.

> A county property tax may be the best means for new *regional* funding for public transit. Housing values reflect transportation access to a significant extent, in that housing close to important trip generators and with easy access to jobs, recreation and other activities tends to be more expensive than more remote housing, all else being equal. Even a flat percentage tax will tend to be progressive, because wealthier people have more valuable property, and renters, who tend to have lower incomes, don't pay property tax at all…
>
> There are a number of advantages to the county property tax concept, provided that a mechanism actually exists to levy and collect the taxes. It spreads the burden widely, it is progressive, it ties value to transportation access, it separates transit funding from local municipal property taxes, and provides some flexibility at the regional level so that each county/region could choose an appropriate level of taxation.

The 2021 study considered a tax rate of 23 cents per thousand dollars of value to generate $21 million statewide. With the lower target in this report, the rate increase would need to be about 3.3 cents per thousand dollars of value, so that a property with a valuation of $300,000 would pay an additional $10.

Further discussion of this concept after the publication of the 2021 report raised doubts that Vermonters would be able to distinguish between local property taxes and a county property tax, since they would both be billed at the same time by their municipality. The 2021 study proposed that the county property tax *substitute* for existing local property taxes for transit (most relevant for GMT member municipalities, but applicable elsewhere), so that communities spending the most on public transit would see their property taxes drop (as the tax burden was spread among the county as a whole). In this report, it is not assumed that the new revenue would substitute for existing sources, and thus everyone would see their property tax bills increase. Given recent history, this would no doubt be a "hard sell," even though the proposed dollar figures are very modest.

Short-term Rental Fee

According to the Vermont Housing Finance Agency, the number of short-term rentals in Vermont reached a new peak of 11,474 in September, 2023. The number has nearly doubled since the depths of the pandemic in February, 2021 and has exceeded pre-pandemic totals by about 35%. These rentals, listed mainly on websites such as AirBnB and VRBO, are located all over Vermont, but many are concentrated near ski resorts. The town of Stowe has nearly 1,000 listings, some 8.6% of the statewide total, and Killington has nearly 900 listings.

People who stay at short-term rentals already pay the 9% or 10% (with the local option tax) room tax discussed earlier, and this tax is directly collected by the website coordinating the rental. The City of Burlington adds another 9% local short-term rental tax to the state tax. The proposal in this report is to add a $4 per night fee to generate funds for public transit.

This fee would not be applicable to units where the owner operates just one or two listings. According to reporting by Vermont Public, about 93% of owners have one or two listings, but these owners only account for 54% of the listings. That is, seven percent of the owners account for 46% of the listings, and these owners may be corporations or wealthy individuals with dozens of units. In 2022, there were just over 1.5 million rental-nights among the short term rentals. Applying the $4 fee to the 46% of them operated by multi-unit owners would generate about $2.8 million. Given the growth in units between 2022 and 2023, the fee would almost certainly hit the $3 million target in 2023 and in the future.

By excluding single- and dual-unit owners, the fee would not harm people who are renting out a spare room or section of their house to be able to afford living where they do. The Vermont Public story highlighted

numerous cases of this phenomenon. This exclusion improves the equity consideration for this fee. In addition, the great majority of people paying this fee would be out-of-state visitors, especially people visiting in the fall for foliage season and in the winter for skiing, who tend to add to traffic congestion and cause road damage. The administrative cost and burden for this fee would be relatively low since the State is already collecting the room tax on these properties; however, the State would need to be able to distinguish between exempt single/dual-unit owners and the multi-unit owners who would be subject to the fee. The stability of this source would be moderate to good, though the future of this industry is uncertain and there is significant seasonal variation.

Revenue from Sports Wagering

The Vermont Legislature legalized sports wagering in its most recent session, with the law to take effect in 2024. The Vermont Department of Liquor and Lottery (DLL) is currently in the process of evaluating proposals from vendors seeking to offer sports wagering to Vermonters. A contract award is expected early in 2024.

Part of the negotiation with vendors will revolve around the share of wagering revenue that the State will receive. The law states that the share may be no less than 20%, and based on the experience of other states, the share is not likely to be higher than 50%. A note from the Joint Fiscal Office estimates that sports wagering will generate $2 million in SFY 2024 and $4.6 million to $10.6 million in SFY 2025 (the first full year of operation), depending on the negotiated state share. Of the SFY 2025 revenue, $500,000 is earmarked for the Sports Wagering Fund to support programs of the Department of Mental Health to combat problem gambling. Another $550,000 is earmarked for the DLL's operating costs for the program. The rest of the revenue will go into the general fund.

In order to generate $3 million for public transit, if the negotiated share is at the low end of the range at 20%, almost all of the remaining revenue after the earmarks would need to be dedicated to transit. If the State can retain 50% of the revenue, then the $3 million for transit would constitute about 32% of the available funds.

Other than claiming a portion of the revenue, money for transit could be generated by assessing a fee on each wager that is placed. It is not known how many wagers would occur, and such a fee would not be possible until the first three-year negotiated period is completed, as the vendors would view the fee as violating the contract that is now being worked out. The advantage of a fee is that it would help to discourage betting, but that is why the vendors would object to it.

Setting aside the fee, the other measures of equity and administrative cost do not apply to this situation, because it is just a matter of how much of the revenue generated by a program that is already set into motion would be dedicated to public transit. It should be noted that there is no logical connection between sports wagering and public transit, so that transit would have to compete with every other program in the state that is seeking additional funds.

Evaluation of Options

The descriptions above contained verbal evaluations of the proposed sources with respect to equity, administrative costs, administrative burden and stability. These measures and two others are summarized in Table 5 below, using scores of 1 to 5, with 5 representing the best score (lowest cost or most favorable benefit). The two additional measures are "acceptability" and "tie to public transit." Both of these measures relate to the feasibility of passing the legislation needed to implement the fee. The greater the tie to public transit, the easier it will be to make the case that the fee should be passed and that the revenue dedicated to public transit. The acceptability measure is purely subjective and reflects the average rating assessed by members of the steering committee for this study. The legislature has the power to pass any law it wants to,

and many factors affect the willingness of members to support any given proposal. The acceptability score thus represents the "best guess" that committee members could make based on past history and familiarity with the legislative process.

The scores for each measure are summed up in two ways: a straight sum that weights each measure equally, and a weighted sum that places the greatest emphasis on acceptability (multiplied by 4), strong emphasis on stability (3), moderate emphasis on equity and administrative burden (2), and the least emphasis on administrative costs and the tie to public transit (1). Other weighting schemes could be used, but they would not have significant impacts on the ranking of the options.

Note that if the vehicle registration fee is changed to an ad valorem fee, the equity rating would rise to 3, giving it two more points in the weighted score.

Table 5 – Evaluation of Options

Option	Fee/Tax Increase	Statewide Revenue (millions)	Equity	Admin Costs	Admin Burden	Stability	Acceptability	Tie to Transit	Straight Sum	Weighted Sum
Vehicle registration fee	$5	$2.92	2	5	5	4	3.3	3	22.3	47.1
Utility fee	$0.40 per HH/$2 per business	$3.03	4	3	2	5	3.6	2	19.6	46.3
Rental car tax	4.5%	$3.06	3	5	5	3	2.9	1	19.9	42.4
Retail delivery fee	40 cents per delivery	$3.08	3	3	3	3	3.4	3	18.4	40.7
County property tax	3.3 cents per thousand	$3.01	4	4	2	5	1.9	1	17.9	39.4
Room and meals tax	0.12%	$3.08	3	5	3	4	2.0	1	18.0	38.0
Gasoline tax	penny per gallon	$2.86	2	5	5	2	2.1	3	19.1	36.6
Burlington airport fee	$5 per enplanement	$3.00	3	3	3	3	2.7	1	15.7	35.9
Property transfer tax	0.08%	$3.04	3	5	5	3	1.1	1	18.1	35.6
Tire fee	$4.50 per tire	$2.93	2	3	2	4	2.1	3	16.1	34.6
Tax/fee on betting	40% share of revenue	$3.20	2	4	4	2	2.7	1	15.7	33.9
Short-term rental fee	$4 per night	$3.00	4	3	2	2	2.6	1	14.6	32.6
Urban road fee	20 cent toll	$2.92	3	1	1	4	1.3	4	14.3	30.1
Burlington parking fee	$2 per car parked	$3.00	2	1	1	3	1.7	5	13.7	27.9

Four of the options have composite weighted scores of better than 40. These are recommended for further consideration as ways to sustain and expand the public transit system in Vermont.

8. RECOMMENDATIONS

Addressing Urban and Statewide Needs

As discussed in Chapter 4, given the current federal funding levels for urban and rural formula programs, and given the current allocation of funds controlled by the State—money from the T-Fund and money flexed from federal highway programs—the shortfalls of operating funding appear to be greater in the urban area than the rural part of the state over the next several years. However, this characterization could easily change if VTrans chose to allocate another million dollars in state money and another two million in flexed funds to the urban area. Therefore, there is a not a hard distinction between the financial needs of the urban area vs. those of the rural areas. The shortfall in funding is truly a statewide problem.

In Chapter 7, some of the options for additional revenue are more applicable to the Burlington metropolitan area (such as the airport fee, the parking fee, the urban road fee, and, to a lesser extent, the rental car tax). If VTrans and the legislature determine that the current split of state and flexed funds is appropriate and will remain in place, then it could make sense to give priority to one of these urban-area-based solutions. However, most of these options received low ratings in the evaluation, and they are not included in the recommendations of this report, other than a reduced rental car tax as part of a broader package.

Recommended Options

The amount of revenue needed to support future transit operations depends on several factors:

1. It is assumed that VTrans and the legislature want to maintain existing service, with at most minor cuts of routes with perennial and irremediable poor performance.
2. It is known that the cost to maintain that service will rise, and the rate of increase is likely to be faster than the growth of federal funding sources, based on current law.
3. The opioid epidemic and the State's aging in place policy will increase the need for rural demand response service, the most expensive type of service to operate on a per-passenger basis.
4. The State's goals for greenhouse gas reduction depend on a renewal of urban transit service and the electrification of the transit fleet, both of which will increase the need for funding.
5. Improved access to employment and increased mobility for rural populations, both of which will improve their living standards and reduce their dependency on human service programs, depend on implementing the Mobility for All concept, first in pilot areas and then statewide.

It was noted in Chapter 4 that a base assumption of the analysis is that existing funding streams will remain at least constant. Thus, creating a new funding source for public transit and at the same time reducing the allocation from the T-Fund or flexed highway funds will not allow for a sustainable future for the existing transit system, much less the expanded one demanded by the State's goals.

Given these assumptions and the financial analysis in Chapter 4, targets for increased revenue for public transit are as follows:

- $3 million annually by FY26
- $6 million annually by FY28
- $10 million annually by FY30

While these may seem to be an aggressive expansion of the revenue base for non-federal funding, they will still address only a portion of the needs described in this report.

In order to achieve these revenue targets and based on the evaluation of options in the previous chapter, this report recommends the following:

- ***Change the vehicle registration fee to an ad valorem fee and boost the average fee to $96.*** Study will be needed to determine the best way to transition to the ad valorem fee as well as to calculate what the fees should be per hundred dollars of value so that the average comes out to $96 per vehicle.
- ***Work with the Public Utility Commission to institute a fee to account for the increasing role of electric power in transportation.*** The first step is a study by the PUC, which can also include analysis of the impacts at various levels of revenue generation and a fee per kWh that would generate the same amount of revenue as a flat fee.
- ***Request a study by VTrans of an incentive program for transit funding within the State Aid for Town Highways program.*** Any revenue enhancement for the T-Fund should be accompanied by an incentive program for municipalities to support their local transit system.
- ***Increase the rental car tax by 1.5%.*** This tax increase would generate $1 million in new revenue.
- ***Implement a retail delivery fee.*** Impose new fee in recognition of damage caused to Vermont's roads by delivery vehicles. Colorado and Minnesota can provide further guidance on the best practice for administering this fee.

Alternative Options

The recommendations above suggest a way to reach the revenue targets without relying too heavily on one source of revenue. Of the four revenue options, the utility fee has the most "headroom" in that it is a small amount of money for each Vermont household—less than $5 per year on average—but generates a substantial total statewide. If the fee were increased over time, it could obviate the need for other sources, such as the increase rental car tax or even the increased vehicle registration fee. Indeed, if the fee is just $1 per household per month and $5 per business per month, it would generate about $7.5 million annually.

The retail delivery fee has benefits as a supplementary source for the T-Fund, and there is a direct tie between the road damage caused by delivery trucks and the use of at least a portion of that money for road and bridge repair. Paired with the Town Highway incentive program, this fee could be a win for both the highway and transit constituencies in Vermont.

Other options that were not included in the recommendations still have potential, including the Burlington airport fee and the fee on short-term rentals. These were judged by the steering committee to be among the more acceptable options, even if they had lower ratings by the other evaluation measures.

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. The same cannot be said for SFY 2026, and so the available time this year is needed to prepare for new revenue sources in 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***. This work during calendar year 2024 will go a long way toward preparing for a sustainable future for public transit in SFY 2026 and beyond.