Elements of Finance Plan

Introduction

The City specifically expressed an interest in locally-financing the Program of Projects developed as part of the Plan. This Technical Memo addresses a full spectrum of local, state and federal sources for completeness. In the future, local revenue expenditures may be eligible as a “local match” if other levels of funding are pursued. Following is an array of potential funding and financing strategies for the Pittsburgh Strip District improvements. Explanations of the various funding types (local, state, and federal) are summarized in Table 1.

Local Funding Options

There are many local funding avenues to pursue - joint development and ancillary revenues and revenues from other existing sources.

- **Joint Development/Public-Private Partnerships**
  Joint development allows public and private partners to share project costs, revenues and financial risk depending on the agreement. These location-specific agreements tend to be well-received by public and private sectors; however, they may be administratively complex and not generate large amounts of revenue. Under the new Moving Ahead for Progress in the 21st Century Act (MAP-21), Federal Transit Administration (FTA) funding can be used to support joint development of transit improvement projects.

  Joint development is a good solution for fixed-guideway systems due to the reassurance of their permanence. These partnerships also remove pressure from the public agency to fully finance projects. Agreements align incentives and accountability with the overall project objectives and can be effective in leveraging private sector innovation and leading practices. This option should be explored for funding the Strip District projects.

- **Ancillary Revenues (Advertisement/Sponsorships)**
  Two viable funding sources for a streetcar, bicycle way, or other improvements are advertising and sponsorships. The City of Pittsburgh would be able to secure revenue to fund these ventures through the sale of naming rights or advertising space on signs, station stops, benches, streetcar system and vehicles, and so forth. The advertising agreements could be for various lengths of time and tiers – from naming a particular streetcar stop to advertising on small signs within the car or on bicycle racks at various pricing levels. Ancillary revenues have been applied at varying levels for other transit improvement projects and can take either a large or small role for this Plan. This option should be explored for funding the Strip District projects.

- **Density Bonuses**

  Density bonuses are an option that allow developers to pay a one-time fee for development over allowable zoning density or for relief of parking requirements. The City of Pittsburgh already uses density bonuses for LEED certified buildings, allowing them to exceed zoning heights and floor areas by 20 percent if the building is LEED certified. Other cities use density bonuses to allow the developer to exceed the zoning rules with the payment of a fee and the inclusion of affordable housing units within the development.

  While such bonuses are one potential source of revenue, zoning code changes and legislation may be required to allow their use related to Strip District development. Due to potential difficulty in gaining approval, density bonuses can be an option but not be counted on as a leading funding source.

- **Development Impact Fees**
  Development Impact Fees are one-time charges collected by local governments from developers to defray the cost of new or expanded infrastructure and services associated with new development. Capacity-increasing transportation investments are one such improvement. Impact fees are a source of revenue for transportation in some jurisdictions, and they can help finance the share of transportation budgets attributable to new development. Generally, development impact fees are considered politically and administratively feasible and can be established and implemented quickly. The imposition of impact fees to help offset the costs of Strip District investments might deter development activity if not applied universally. The City needs to make sure that such fees are not counter to its plans for the Strip. The efficiency of an impact fee system would need to be balanced with what the City can do to help incentivize development in the Strip District. An impact fee may be worth considering for funding specific Strip District improvements.

- **Parking Meter/Lot Revenues**
  Another feasible option is collecting a share of the parking meter or parking lot revenues within the area to be used toward funding improvements. This would require approvals from the City to either raise parking meter and lot rates or to divert a portion of the current revenues toward funding these ventures. Meter and parking lot revenues would also require approval to collect from any private lots in the area.

  The use of parking meter or lot revenues has the potential to provide a moderate amount of funding, particularly as the Strip continues its reputation as a regional "destination."

- **Various Tax and Fee Options**
  The final local option is to increase one or a variety of taxes and fees. These potential tax sources in the area include:
  - Local sales tax,
  - Corporate/commercial taxes,
  - Hotel guest/tourist taxes,
  - Rental car taxes,
  - Restaurant taxes,
  - Transit utility tax (fee for transit added to sewer or trash bill in the locality), and
  - Realty transfer/land gains tax (on incremental price gain due to streetcar presence charged upon real estate sale).

  While many of these taxes already exist, it may be possible to either slightly increase them or to divert a portion of their revenue toward funding the construction and operation of a fixed guideway transit system. A potential difficulty is that these tax increases would require approval and they may be politically unfavorable. Regardless, these options should be considered.

Benefits Districts

Benefits Districts provide a true opportunity for a large source of local funding. Three options for benefits districts are:

- **Transit Revitalization Investment District (TRID)**
  A TRID is a district-based tax increment financing mechanism that captures the increases in property values to pay for necessary transit improvements. Unlike a TIF, the TRID does not require a finding of "blight" and also explicitly emphasizes financing of transit and transit-oriented development (TOD).

  The TRID designation allows tax revenues generated from improvements to the area to be designated for use in completion and improvement of projects. Developments within a TRID must strive to meet the TOD goals set for that district.

  The City of Pittsburgh has TRID Financing Guidelines in place and has a completed planning study to implement a TRID surrounding the East Liberty Transit Station. The study examines transportation, infrastructure and development scenarios surrounding the Port Authority of Allegheny County East Busway station with goals similar to the Strip District.

  The formation of a TRID in the Strip District would allow any of the improvements – transit, commercial, industrial, and residential – that meet the development goals within the district to be financed. This is the best value-capture option to finance and implement the Plan's program of projects.

- **Tax Increment Financing (TIF)**
  Tax increment financing is a public financing technique used by localities to encourage economic development typically in "blighted" areas. TIF captures the future tax benefits from investments to pay for the present cost of improvements necessary to address the blighting conditions. This is typically done through public agency bonds that finance the infrastructure necessary to support the development. As development occurs, the incremental increase in property value within the formally designated TIF district is used to repay the previously issued bonds. TIF districts are typically used to help finance the capital costs of infrastructure projects rather than to finance long-term, ongoing operational support.

  While TIF districts are prevalent in other areas, and each benefits district has its advantages and disadvantages, the City of Pittsburgh would prefer to use a TRID based on several factors:

  - A TIF is a site-specific tool, with all development planning directed by the private project sponsor. The City of Pittsburgh does not have area/corridor/comprehensive plans in place so there is no conformity requirement for ensuring high quality Transit Oriented Development (TOD).
  - A TIF district may include base or overlay zoning, but a TRID can include a completely new base zoning district in order to ensure high quality TOD. Zoning for a TRID is also developed as a community-based plan rather than a developer's plan.
  - TRID is a district-specific tool, shaped by financial planning but also by the ridership/service area of the transit facility around which it is established. TRID can also be used to set up the commitment of funding for transit systems and facilities that do not yet exist. It is specific to transit not just a development site.

  Because of these factors, the TIF is not considered as a funding source for the proposed infrastructure improvements. A TRID is being recommended as a potential option for funding.

- **Private Special Assessment District**
  Special assessment districts allow property owners to designate an area in which new taxes or fees are assessed on properties that are expected to receive a benefit from their geographic proximity to an improvement. The idea behind special assessment districts is that these properties will directly benefit from a particular investment and thus, they should pay a share of the investment.

  A special assessment district is a possible funding source. With the TRID as the principal finance strategy, a special assessment district must be driven by the Strip's residents and businesses. The costs AND benefits must be clearly understood. A paired TIF/TRID and special assessment district is common for streetcar projects.

- **Other Fund Sources**

  There may be other sources of funding that are available but untapped. For example, institutional or not-for-profit foundations may have funds available that could support Strip District development.

State Funding Options

As a supplement to the local funding sources, there also is the potential for some state allocated funding. Primary sources of state level funding would likely be from the General Fund and the Public Transportation Trust Fund. There is a limited possibility of receiving funding from toll revenues.

- **General Fund Operating Subsidies/Public Transportation Trust Fund**
  Operating subsidies from the General Fund were historically used to fund Pennsylvania Transit Systems. Additionally, Act 44 of 2007 created the Public Transportation Trust Fund (PTTF) as an additional fund source dedicated to public transportation. Some funding may be available through these sources; it may be difficult to rely heavily on General Fund subsidies or PTTF funds.

  The PTTF is comprised of 4.4 percent of all sales tax collected by the state, a share of the Lottery fund,[1] state bonds for capital projects, funds remaining from the PTTF, and payments from the Turnpike Commission. Based on Act 44, state funding can account for up to 96 2/3 percent of the non-federal share of project costs for capital investments. Prior to Act 44, the state share was capped at 16 2/3 percent of total project costs. The funds from the PTTF can be used for either operating or capital assistance. There are also provisions for new initiatives, which puts priority toward matching FTA New Starts grants and Programs of Statewide Significance.

Federal Funding Options

Several avenues of federal funding are available, including Federal Transit Administration (FTA) New Starts/Small Starts grants, a Transit-Oriented Development Planning Pilot Grant, Joint Development funds, formula grants and Housing and Urban Development funds. Other federal funding, such as the Transportation Investment Generating Economic Recovery (TIGER) program, may be an option for "filling the gap" of an overall funding plan. The Transportation Infrastructure Finance and Innovation Act (TIFIA) program is also an option. It provides credit assistance for qualified projects of regional and national significance. An early decision must be made to pursue

[1] The Lottery fund is used to fund the Free Transit for Senior Citizens Program.

any of these options, since many of them have specific guidelines that must be followed for qualification. In addition, the process may require a considerable time commitment.

- **FTA New Starts/Small Starts Grants**
  The FTA New Starts/Small Starts program provides fixed guideway capital investment grants for projects that expand transportation options in key corridors. Eligible projects are new fixed-guideway or extensions of existing fixed guideway systems, bus rapid transit projects that substantially improve transportation in the corridor, or projects that expand existing fixed-guideway capacity by at least 10 percent. The FTA New Starts/Small Starts program was revised and streamlined under the new MAP-21 guidelines. Under MAP-21, the Alternatives Analysis requirement was eliminated, but the metropolitan planning and environmental processes remain. Small Starts, which must have a total net capital cost of less than $250 million, are now funded through a single year grant award. This competitive program provides funding to new transit initiatives but requires that applicants follow very specific guidelines and procedures. If a decision is made to pursue federal funding, New Starts/Small Starts may be a viable option to pursue, though funding is not guaranteed.

- **FTA Transit-Oriented Development Planning Pilot Grants**
  Transit-Oriented Development Planning Pilot Grants are a new addition under the MAP-21 program. This is a discretionary pilot program for funding comprehensive planning in corridors with a new rail, bus rapid transit, or capacity increasing project that seeks to enhance transit-oriented development and multi-modal connectivity and accessibility. This program would fit nicely with the goals of the Strip District Plan. The program authorizes $10 million in FY2013 and another $10 million in FY 2014 but requires private sector participation.

  These grants should be considered as an option, though they are not a guaranteed source of funding. The study area and program appear to fit the guidelines for eligibility.

- **FTA Joint Development Funds**

  Joint development opportunities using FTA funding may be available, as long as four criteria are met:
  - Activities must provide economic benefit by either enhancing economic development or incorporating private investment;
  - Activities must enhance the effectiveness of public transportation and be related to public transportation;
  - Activities must provide a fair share of revenue to be used for public transportation; and
  - Persons occupying the space in a joint development facility must pay a fair share of the costs of the facility through rental payments or other means.

- **Transportation Alternatives Program Funding and Other Formula Grants**
  The FTA also supports various other funding and grant options that may be available if the City is considering pursuing federal funding. These grants include urbanized area formula grants; fixed guideway capital investment grants; formula grants for the enhanced mobility of seniors and individuals with disabilities; state of good repair grants; and bus and bus facilities formula grants. Additionally, there are some funds provided by the Federal Highway Administration (FHWA) that can be used for public transportation. These include Surface Transportation Program and Congestion Mitigation and Air Quality Improvement (CMAQ) funds. Each of these grants has specific eligibility requirements.

- **Transportation Investment Generating Economic Recovery (TIGER)**

  The US Department of Transportation (USDOT) awarded grants to surface transportation projects that will have a significant impact on the nation, a metropolitan area or a region. To date, there are five rounds of TIGER grant funding. The grants are awarded on a competitive basis and projects must be "shovel ready" to receive funding. The minimum grant request is $10 million and at least 20 percent of the total project cost must be supported by state and local sources (unless the project is in a rural area). Streetcar projects around the country are consistent recipients for TIGER funding based on sustainability, livability and economic competitiveness. Success is further strengthened when the grant is rounding out an overall finance plan for the project.

- **Transportation Infrastructure Finance and Innovation Act (TIFIA)**
  This USDOT program provides credit assistance for qualified projects of regional and national significance and many large-scale, surface transportation projects are eligible for assistance. The program was created to help state and local governments obtain financing at reasonable rates. Some of these entities sought to finance large-scale transportation projects with tolls and other forms of user-backed revenue. However, many had difficulty obtaining financing at reasonable rates because of the uncertainty of these revenue streams. TIFIA credit assistance is often available on more advantageous terms than in the financial market, making it possible to obtain financing for projects when it might not otherwise be possible. The program is intended to fill market gaps and leverage private co-investment by providing supplemental and subordinate capital. Each dollar of federal funds can provide up to $10 in TIFIA credit assistance and support up to $30 in transportation infrastructure investment. To qualify for TIFIA assistance, a project must meet the following criteria:
    - Minimum project cost: $50 million (intelligent transportation system projects have $15 million minimum);
    - Federal funding cannot exceed 33% of eligible costs or the amount of senior debt if the TIFIA loan does not have an investment grade rating;
    - Senior debt obligations must receive an investment grade rating; and
    - The project must have a dedicated revenue source to pledge as repayment on the TIFIA loan.[2]

[2] USDOT Federal Transit Administration, http://www.fta.dot.gov/grants/12861.html.

Table 1: Summary of Funding Options

Funding Option	Available and Probable	Available but Not Probable
Local	• Joint Development/Public Private Partnerships • Ancillary Revenues (Advertising and Sponsorships) • Parking Meter/Lot Revenues • Various Tax and Fee Options • Development Impact Fees	• Density Bonuses
Benefits Districts	• Transit Revitalization Investment District (TRID) • Private Special Assessment District	• Tax Increment Financing (TIF)
State	• General Fund Operating Subsidies/Public Transportation Trust Fund	
Federal	• FTA New Starts/Small Starts Grants • FTA Transit-Oriented Development Planning Pilot Grants • FTA Joint Ddevelopment Grants • Transportation Alternatives Program Funding and Other Formula Grants • TIGER • TIFIA	

Financing Scenarios

There are a variety of available funding sources for the various aspects of the Program of Projects. The ultimate sources that are selected for financing the project will vary depending on the avenue of funding that the City decides to pursue.

Primarily Local Funding

The City would like principally to rely on local funding. If this is the ultimate decision, and the City elects not to pursue any federal funding, the primary source of financing would need to be a public-private partnership that would be supplemented with a TRID to complete the remainder of the financing needs. According to the guidelines, the TRID can only be implemented when traditional private and public financing methods are insufficient to complete the project.

Under this scenario, the majority of the funding for the entire program would be anticpated to come from the public-private partnership. This would potentially be supplemented by using some local tax/fee options and ancillary revenues at some of the bike corrals and existing bus stops. The largest component of the Program of Plans is the streetcar, which would need to be partially financed through this partnership and then the TRID would be used to finance the remainder of the construction and operations.

Federal and Local Funding

If the City decides to pursue Federal Funding, the streetcar component could be financed through a Small Starts grant. This grant would require a state and local match, which would come from the Public Transportation Trust Fund at the state level and other means at the local level. In this instance, a joint development plan would likely also need to be considered. Joint development is a type of public-private partnership that can be used to supplement the federal funding. In this instance, a TRID could also be implemented to capture the value increase in the area associated with the presence of the streetcar. At the local level, ancillary revenue can be used to support the operations and maintenance of the full Program.