CHAPTER 12 - INNOVATIVE FUNDING STRATEGIES

12.1 Overview

The Long Range Transportation Plan (LRTP) Projects List (Table 9-1) includes nearly $700 million in identified transportation project needs in the region. At the same time, the forecast for available state and federal funding (see Chapter 8) is only approximately $136 million for the planning horizon (cost of Tier 1 projects only). This leaves an approximately $564 million funding gap for future needs identified in the LRTP.

Federal regulations allow for use of non-traditional revenues and strategies for closing the gap between the transportation needs and traditional sources of funding. Funds generated through "innovative" or less traditional mechanisms should be pursued to pay for projects beyond those in Tier 1 and/or to supplement traditional sources to either provide local matching funds or to improve the quality of the transportation project (multimodal enhancements, aesthetics, etc.).

While the Morgantown Monongalia Metropolitan Planning Organization (MMMPO) encourages the use of innovative funding strategies to maximize transportation improvements over the horizon of the plan, in the development of the fiscally constrained plan (see Section 9.3), no non-state/federal funding sources have been assumed. This is because no local or other funds have been committed for transportation improvements (at the time the LRTP Tier 1 project list was adopted on December 17, 2012).

It should be noted that not all the strategies discussed in Section 12.3 are allowable under current State laws. The *Local Transportation Funding/Legislative Committee* that is described by Strategy 1 (see Section 9.2) must provide leadership in terms of identifying and championing the pursuit of various innovative funding mechanisms, including working with the State Legislature when necessary.

The MPO will facilitate this process. The MPO is currently working with the West Virginia University (WVU) Law School through their Sustainability Project to develop draft language for the State legislature's consideration that would add local funding options to West Virginia State Code. The committee will need to continue to meet to further define these options and determine the most advantageous and feasible funding options for transportation projects in the region.

12.2 Current Alternative Funding Options

In addition to the funding streams identified in Chapter 8, the following are two funding options that have been used in the past in the region.

Tax Increment Financing

The following description of tax increment financing is taken from excerpts from the document *Property Tax Increment Financing in West Virginia, A Guide for Counties and Class I and II Municipalities*, published by the West Virginia Development Office.

> *Tax increment financing captures the projected increase in property tax revenue gained by developing a discrete geographic area and uses that increase to assist in paying for the project. This funding makes it possible to go forward with projects that otherwise would not be built.*
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> *Tax increment financing can be used by West Virginia counties and class I and II municipalities to help fund their own development projects or projects brought to them by private developers or other private or government entities. Class III and IV municipalities must work with their local county commissions in order to utilize tax increment financing. (Class I municipalities have more than 50,000 people. Class II municipalities have more than 10,000 and up to 50,000 people. Class III municipalities have more than 2,000 and up to 10,000 people. Class IV municipalities have less than 2,000 people.)*
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> *There are two ways to fund projects using tax increment financing: (1) Pay-as-you-go method; and (2) Issuing tax increment financing bonds or notes.*
>
> *(1)* ***Pay-as-you-go****. In some cases, the county or municipality may be able to use the tax increment to pay for projects as they are constructed. Possible projects that might use the pay-as-you-go method are the installation of streetscapes or other small improvements. In all cases, the county or municipality (in conjunction with any outside developer) will need to submit a project proposal to the State Development Office; however, no tax increment financing obligations will be issued (see below) to finance the construction.*

(2) ***Issuing Tax Increment Financing Bonds or Notes****. In other cases, there may be substantial up-front development costs and the county or municipality will need to issue tax increment financing bonds or notes in order to use the increment to help finance the project. These obligations will provide money up front to pay for a portion or all of the project's costs. The obligations will then be paid back by the tax increment over a period of up to thirty (30) years.*

Projects must be located within a development or redevelopment project area or district. That area may already be in existence or may be established in conjunction with the approval of the development or redevelopment project that is funded in whole or part with tax increment financing. The project area or district in which the project is located must be directly and substantively benefited by the proposed project plan.

Tax increment financing is reserved for use with projects that, "but for" the existence of tax increment financing, would otherwise not be built. Eligible projects may be proposed by a county or municipality, by a private developer, or by another government or private entity (including local economic development authorities). However, each project must be approved by a county commission or the governing body of a class I or II municipality in order to be eligible for tax increment financing.

In order to be eligible for tax increment financing, a project must also promote the economic development of the project area or district by eliminating a blighted area, preventing the deterioration of an area into a blighted area, increasing employment, and/or encouraging the location of commercial or industrial activity and jobs in West Virginia.

All tax increment financing plans must be approved by the West Virginia Development Office. There also is an option to do sales tax (versus real estate tax) increment financing. For the sales tax option, State legislature must approve the proposed tax district and financing plan. A combined real estate and sales tax increment financing plan is proposed to fund all or a portion of the construction of LRTP Project #5.

Developer Contributions

While there is no formal policy for impact fees in Monongalia County, the County and the City of Morgantown have been successful at times in working with developers to obtain voluntary participation in transportation infrastructure projects. These include partial or full payment of traffic signal costs, turn lane costs, right-of-way dedication in lieu of cash payments, etc.

12.3 Potential Innovative Funding Mechanisms

The following list of potential funding sources was generated through discussions with a committee of local leaders, stakeholders, and funding experts.

Student Impact Fee

A fee would be added to WVU student fees (or an increase in the current fee) designated for transportation services and/or improvements.

Transportation Improvement District

As defined in the document *Alternative Funding Strategies for Improving Transportation Facilities*, prepared by the Center for Urban Transportation Research for the North Carolina Department of Transportation (2006):

> *A transportation improvement district (TID) is a special funding district for improving transportation infrastructure and services in a specific area. Known in some states as transportation development districts (TDD), they provide a forum for achieving cooperation among local governments and other governmental agencies on a common purpose of improving the transportation system in a designated area.*
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> *State law varies as to their nature and authority, but generally they function as a separate governmental entity with authority to levy taxes or special assessments, issue revenue bonds, and enter into contracts for transportation improvements and related purposes. Some districts require new development projects with traffic impacts to pay for improvements based on a dollar cost per vehicle trip generated.*

A local government body, typically a county commission, acts as the lead entity informing the district. The district must also have a development plan that is consistent with adopted land use and development plans. Zoning and build-out projections by each municipality form the basis for the infrastructure improvements required for the district.

Income Tax

This option would increase local income taxes by a certain percentage, which would be designated for transportation improvements or a broader array of municipal infrastructure improvements. Under this program, only capital expenditures would be covered. Thus, the program could be used to fund roadway or trail/sidewalk improvements, but could not be directly used to fund operating costs associated with adding transit service hours.

Excess Property Tax

This would be a tax on real estate property above the maximum levels allowed by state law. The voters of each taxing authority must approve any excess levy of tax proposed for their municipality, school board or county. This type of funding source can be used for any tax payer approved use including transit operating expenses.

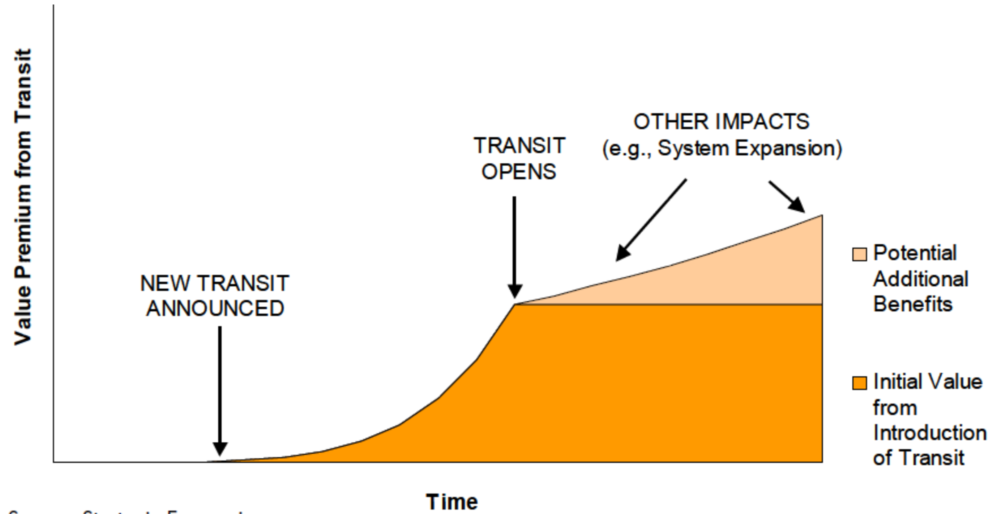
Permit Parking Districts

This would designate certain areas in local municipalities where public parking would require a permit. Permit fees would then be designated for transportation improvement purposes only.

Transit-Oriented Development

Transit-Oriented Development refers to new development and redevelopment that is centered upon and driven by access to transit facilities. The opportunity to generate funding to operate and improve the transit system comes from capturing the increase in property values that result from the new or improved transit services in an area or a corridor, as illustrated in the following graphic.

Hypothetical Transit Value Curve



Source: Strategic Economics.

A document entitled *Capturing the Value of Transit,* prepared by the Center for Transit-Oriented Development for the Federal Transit Administration (2008) points out the following strategies for capturing the value of transit:

Special Assessment – a tax assessed against parcels that have been identified as receiving a direct and unique benefit as a result of a public project.

Tax Increment Financing – a mechanism that allows the public sector to capture growth in property tax (or sometimes sales tax) resulting from new development and increasing property values.

Joint Development – generally, cooperation between the public and private sectors to deliver transit-oriented development (TOD), usually involving development on transit agency owned land.

Developer/Impact Fee- a fee assessed on new development within a jurisdiction as a means to defray the cost to the jurisdiction of expanding and extending public services to the development.

Local Option Vehicle Registration Tax

This additional tax can be instituted either by the Board of County Commissioners, or as the result of a referendum by the voters and would be collected for each registered vehicle in the Monongalia County.

TIGER Grants

Transportation Investment Generating Economic Recovery (TIGER) is a federal discretionary grant program included in the American Recovery and Reinvestment Act of 2009. The program awarded nearly $500 million in its fourth round of awards (for fiscal year 2013) in June of 2012.

Per the United States Department of Transportation (USDOT), these funds are awarded on a competitive basis for projects that will have a significant impact on the nation, a metropolitan area or a region. Additionally, the awards ensure an equitable geographic distribution of funds, an appropriate balance in addressing the needs of urban and rural areas, and the investment in a variety of transportation modes. The USDOT emphasizes that the most competitive projects are those with the following characteristics:

- Multimodal projects, with coordinated investment from other sources and programs
- Demonstrate project benefits across selection criteria
- New partnerships, multi-jurisdictional cooperation
- Public-private partnerships
- Support key national priorities
- Non-traditional or hard to fund projects

Many of the future needs identified in the LRTP fit these characteristics, so this program should be taken advantage of to the greatest extent possible. However, the future of the program is not clear given recent cuts in federal funding.

Sales Tax

If approved by local ordinance or referendum by the voters, an additional countywide or transportation district-wide sales tax could be designated for funding transportation system maintenance, expansion, and operations programs.

Wage Taxes

State law allows Monongalia County, through a referendum vote of the electorate, to levy a fee/tax dedicated to municipal infrastructure improvements based on employee head count. The county would have the capabilities to identify projects to be funded by such a fee program, and would establish a fee level required to retire bonds issued to cover the improvement costs. The revenue generated also could be used to fund the local match of specific state system projects. Under this program, only capital expenditures would be covered. Thus, the program could be used to fund roadway or trail/sidewalk improvements, but could not be directly used to fund operating costs associated with adding transit service hours.

A referendum of this type was attempted in Monongalia County a few years ago and failed. In order to potentially pass such a referendum, a significant level of public education, a well-crafted campaign, and support from local politicians and community leaders would likely be needed. Leadership from the proposed *Local Transportation Funding/ Legislative Committee* would be important.

Tolling

A county may propose a toll facility on a new location. The availability of funding must be documented in an investment-grade traffic and revenue study and be cooperatively proposed with the State.

Local Option Fuel Tax

This would be a per gallon fuel tax levied by the county, established by referendum or County Commission Ordinance.

Impact Fees

Many communities across the country have passed local laws to require commercial, industrial, and residential developers to pay for improvements needed due to the impact that development will have on the local infrastructure in terms of roadway safety and capacity.

The issue of transportation impact fees is always controversial within a community. While the fees are intended to equitably allocate costs consistent with the development-added traffic volume impacts on the transportation system, there is the continual argument that the fees will hinder the economic growth associated with new construction.

West Virginia law permits counties, but not municipal governments, to impose impact fees for subdivision or site plan approval and for issuance of building permits or a certificate of occupancy for new construction. The county can use the fee to make capital improvements such as the construction or improvement of water, sewer, and stormwater infrastructure, roads, parks and recreational facilities, public schools, and public safety facilities.

To qualify to impose impact fees a county must meet several requirements including:

- Experiencing population growth over the last five years of at least one percent per year, on average.
- The county must have an approved/adopted comprehensive plan and a process for updating it at least every five years.
- An adopted subdivision ordinance.
- A zoning ordinance.
- A building code permit and enforcement process.
- A land use development plan.
- A set of standards of service for capital improvements.
- A capital improvement list to be funded by the fee.

To date, only Jefferson County is the only West Virginia county that has met these requirements.