

**SOUTH VALLEY
TRANSIT
STUDY**

**APPENDIX G -
ECONOMIC
DEVELOPMENT AND
FUNDING OPTIONS
MEMO**

ECONOMIC DEVELOPMENT AND FUNDING OPTIONS MEMO

The purpose of this memo is to capture a wide range of potential funding tools that could be used to fund the South Valley Transit project as well as provide some initial economic development opportunities for consideration. The intent is not to propose a specific funding plan but instead highlight potential sources and opportunities to guide more specific funding plan development in the future.

This report considers funding mechanisms for the South Valley Transit project from two perspectives: 1) new revenue streams; and 2) existing revenue sources, many of which may need increases in order to cover additional projects. New revenue streams may be a more likely source of funding, as most existing revenue streams are already allocated to specific projects in the State’s funding plan.¹

Economic development is a key component of generating new revenue streams and is addressed in this report, along with the potential funding mechanisms that such development could enable. Specifically, economic development opportunities associated with potential commuter rail or other high-capacity transit improvements that are being considered for several cities in the South Valley of Utah County are evaluated as to how these opportunities might translate into revenue streams available for funding for the transit improvements.

TABLE 1: PRIMARY REVENUE STREAMS FOR CONSIDERATION

New Revenue Streams	Existing Revenue Sources
Transportation Reinvestment Zones (TRZs)	Transportation Taxes
Housing & Transit Reinvestment Zones (HTRZs)	Sales Taxes
Community Reinvestment Areas (CRAs)	Property Taxes
Public Infrastructure Districts (PIDs)	User Fee Increases
Legislative Appropriations	Transit Transportation Investment Fund (TTIF)
Grants	Gas Taxes
Transportation District	
Public Private Partnerships (P3s)	

While construction plans are not finalized, it is currently estimated that costs will be in the range of \$550 million - \$750 million. Given a range of bonding scenarios, this would likely require a range of \$28 million - \$38 million in annual bond payments assuming a 30-year term on bonds. This report explores a wide variety of ways to raise these revenues. The table below summarizes some of the most likely revenue sources.

¹ All dollar amounts expressed in this study are in \$2021

TABLE 2: PROJECTED REVENUE AMOUNTS BY SOURCE

Description	Annual Revenue Increase
Tax increment (TRZ, HTRZ, CRA)	\$3M-\$10M
\$50 annual property tax increase per \$400,000 primary residence – So. Utah County cities	\$2.16 M
\$50 annual property tax increase per \$400,000 primary residence – Utah County	\$12.5 M
Transportation District - .0008 mill rate	\$7.6 M
Sales tax-related increase of 0.2% in Utah County	\$25.6 M
Sales tax-related increase of 0.05% statewide	\$37.4 M
Grants	
TTIF	
Legislative appropriation	

ECONOMIC DEVELOPMENT CONSIDERATIONS TO MAXIMIZE REVENUE STREAMS

A key consideration for cities which may eventually house a commuter rail or light rail station will be to maximize economic development opportunities surrounding stations. High-capacity transit improvements are most often permanent and represent an opportunity to create policies and economic development tools that will help surrounding land reach its highest and best use potential.

The first consideration in determining how economic development tools may be applied is through a Highest and Best Use analysis. Cities must understand how highest and best use works, and, more importantly, how they can achieve the type of development they want by better understanding market conventions and the implications of various development types. Historically, Highest and Best Use has only been considered by cities as to what creates the greatest return to the land. This is a developer-centric model for Highest and Best Use and relies upon an understanding of developer figures and intentions. A wider implementation of Highest and Best Use should consider the following:

- Highest and Best Use to the developer. This scenario considers the greatest return to the land, and has historically been all that has been considered by most municipalities
- Highest and Best Use to the city (fiscal). This consideration addresses the proposed fiscal impacts of development and what revenue and expenses are generated for a city. The impacts may include, but are not limited to, property taxes, sales taxes, municipal energy fees, Class B/C road funds, retail buying power, and costs of services to be provided
- Highest and Best Use to the citizens. This scenario is often less quantitative and relies upon feedback from citizens of what amenities are lacking in the area. This process also requires notable education, as residents will often resort to desires that are not market feasible. Data is necessary to show, for example, that a certain retailer will not occupy a site until surrounding demographics hit specific metrics. Or residents may be unaware that their transportation costs are higher than those of other communities due to a lack of employment centers, and that adding jobs at a site (instead of an alternative, publicly desired use) may result in notable community benefits.

Ultimately, highest and best use studies will provide the framework for a municipality to understand the full implications of development. These studies will show what the market can build, what impacts the city should expect, and what property types are currently not feasible. If the non-feasible (in the market) uses are still desired by the city, various economic development tools may need to be implemented to see that use to fruition.

This memorandum does not include highest-and-best use analyses for specific sites as development plans are currently not in place for specific sites surrounding stations. Further, it is the intent of this memorandum to provide a higher-level approach to funding options that includes general economic and financing tools that can be used in a wide variety of instances. That said, it is important to remember that highest-and-best use development around stations – the type of development that will produce the most fiscal impacts to the taxing entities – will produce more revenue streams that can be used to fund transit development.

COMBINED COMPONENTS FOR FUNDING OPTIONS

The available tools and issuing entities discussed in this report may be combined in a variety of viable options to arrive at the desired funding level for the South County transportation corridor. When selecting funding components, it is important to retain the ability to issue other forms of debt, including commercial paper or bond anticipation notes, which can provide significant timing and funding flexibility.

TAX INCREMENT AREAS

Through the creation of a tax increment area, tax revenues generated within the designated project area are split into two components:

- (i) Base Revenues – The amount available before the tax increment area is established. Base revenues are shared among a mix of local governments that have the power to assess taxes such as schools, cities, counties, and special districts; and
- (ii) Incremental Revenues – These are tax revenues in excess of the base revenues that are generated by new growth in the project area. If a project area is created, the incremental tax revenues can flow to the project area for a period of time to encourage economic development.

Some states, including Utah, allow incremental local sales tax revenues, as well as property taxes, to flow to a project area for a period of time. By giving exclusive use of incremental revenues to the project area, the creation of a successful tax increment area generates a new revenue stream that can be used to pay for projects, provide incentives to developers, or collateralize tax increment bonds.

The most common uses of tax increment have been for infrastructure such as roads, utilities, CGS, telecommunications, electrical upgrades and burying power lines, and parking structures. Tax increment has also been used for demolition, tenant improvements, land acquisitions, environmental cleanup,

trails, lighting, signage, playgrounds, incentives to developers, economic development activities, housing, etc.

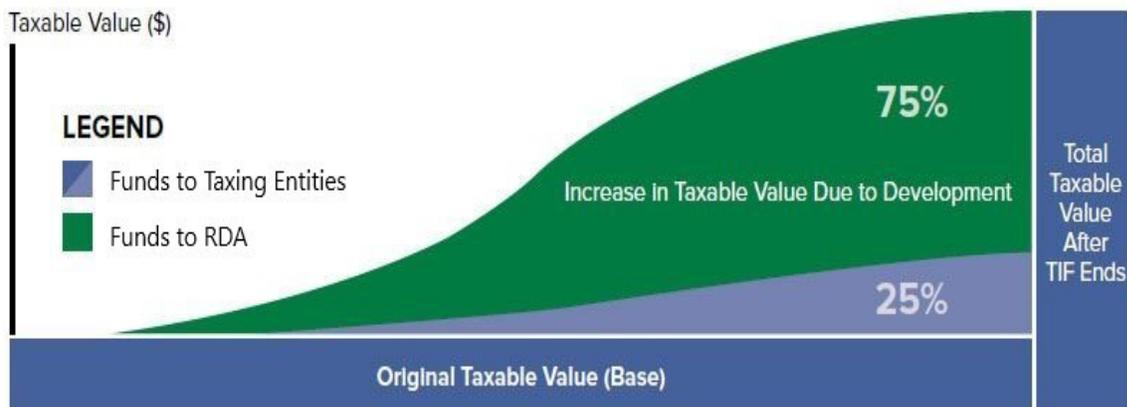
Utah currently allows for the enactment of three types of tax increment areas:

- Transportation Reinvestment Zones (TRZs)
- Housing & Transit Reinvestment Zones (HTRZs)
- Community Reinvestment Areas (CRAs)

TRANSPORTATION REINVESTMENT ZONE (TRZ)

A TRZ is one type of area that can be formed where tax increment can be used to accelerate development within the defined project area. According to Utah Code §11-13-103(22), “Transportation Reinvestment Zone” means an area created by two or more public agencies by interlocal agreement to capture increased property or sales tax revenue generated by a transportation infrastructure project. TRZs are ideal for projects, such as Frontrunner, that span multiple jurisdictions.

A TRZ could be formed along the corridor that would include each station area – Spanish Fork, Springville and Payson – with tax increment available to assist with funding of commuter rail in the area. This tool is intended to aid projects that would not otherwise be built given existing market conditions. Any two or more public agencies may enter into an agreement to create a transportation reinvestment zone but one of these entities must have land use authority over the TRZ area.



A TRZ is much like a Community Reinvestment Area (CRA) in that a portion of tax increment is pledged to the project for a specified period of time. The agreement between the two or more public entities must include the following, as specified in Utah Code §11-13-227(2):

- Define the transportation need and proposed improvement
- Define the boundaries of the zone
- Establish terms for sharing sales tax revenue among the members of the agreement
- Establish a base year to calculate the increase of property tax revenue within the zone
- Establish terms for sharing any increase in property tax revenue within the zone
- Hold a public hearing regarding the details of the TRZ

Property tax revenues that are shared between members of the agreement are required to be incremental (Utah Code §11-13-227(2)(e)). In order to identify incremental revenues, a “base year” needs to be established. The law clearly allows for the sharing of both sales tax and property tax revenue among the members of the agreement.

There are advantages to governance with TRZs, as compared to CRAs, for projects that span multiple jurisdictions. In fact, there are only a few redevelopment areas in Utah that currently overlap multiple communities. While such are allowed by law, governance can be tricky. For example, in a CRA spanning two cities, each city would have its own redevelopment agency. Who then governs the project area? Joint RDA board meetings can be held, each agency board can meet separately, or there can be a MOU designating one of the RDA boards as the lead agency. Experience dictates that concerns often arise when more tax increment is generated in one jurisdiction of the project area than in another. There are often concerns about equity in spending funds in the same jurisdiction from which they come. Each redevelopment agency involved has to submit its annual report detailing the increment generated and how funds were spent, further exacerbating this concern.

The TRZ overcomes many of these problems. First, with a TRZ, there is no requirement for RDA involvement, and therefore no need for RDA meetings. The TRZ is simply governed by an interlocal agreement signed by the parties. TRZs have proven effective in other states where projects cross multiple jurisdictions. With a TRZ there is no requirement to measure where increment is generated and where funds are spent. The purpose is simply to achieve an overall project. And only one annual report has to be filed for the TRZ – not separate reports for each participating entity.

Another advantage to TRZs is the ability to obtain the commitment of transportation agencies, such as UDOT or UTA, for specific projects. Interlocal agreements between the public entity with the land-use authority and a transportation agency will identify the specific projects associated with the TRZ. This will add another level of certainty to local planning efforts and will give these public entities some additional leverage in prioritizing needed transportation projects.

In order to estimate incremental property tax revenues that could be generated near planned Frontrunner stations, vacant acres were measured within a ¼-mile radius as shown on the rolls of the Utah County Assessor’s Office. No site visits were conducted so “vacant” versus “developed” status was solely determined by information from the Utah County Assessor. Note that for some larger parcels that appear vacant in the figures below, buildings may be present outside of the aerial image and/or aerial imagery may not capture current development.

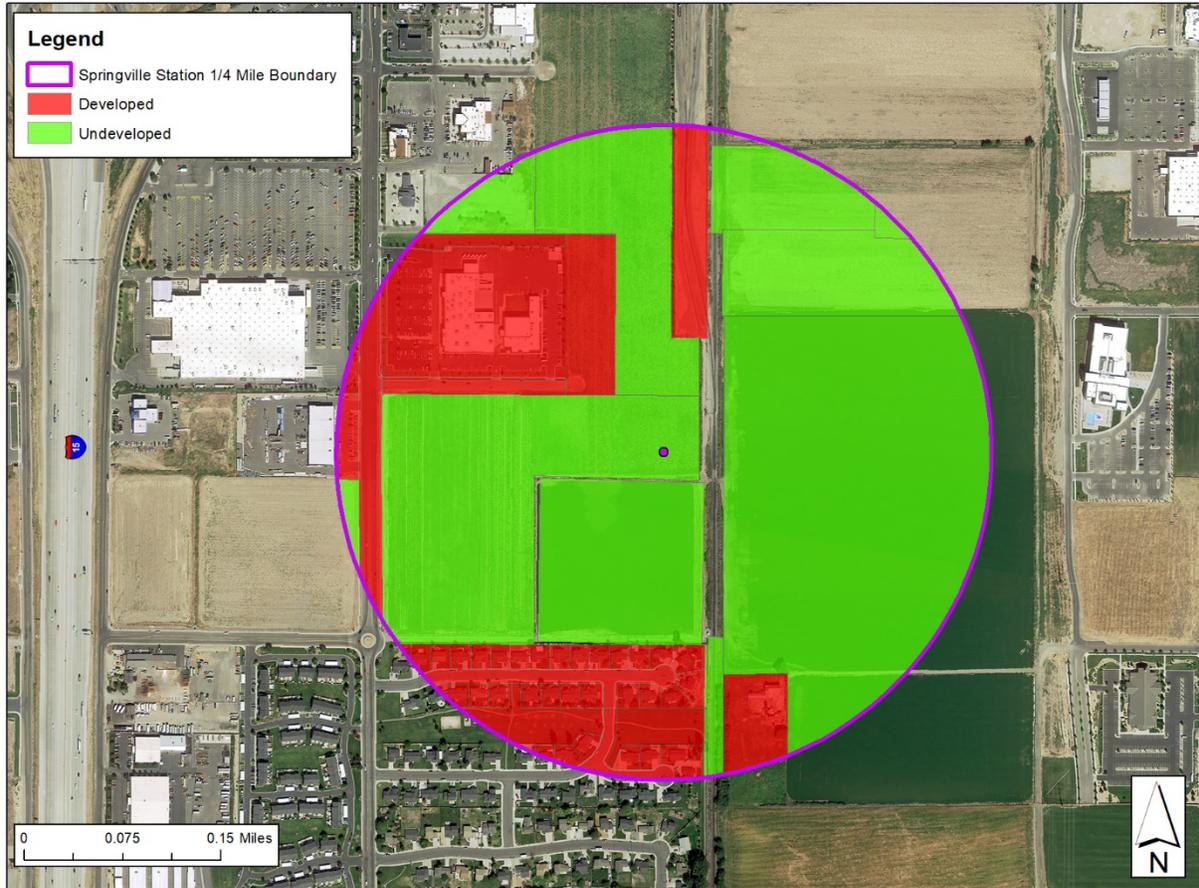


FIGURE 1: SPRINGVILLE STATION, 1/4-MILE BOUNDARY

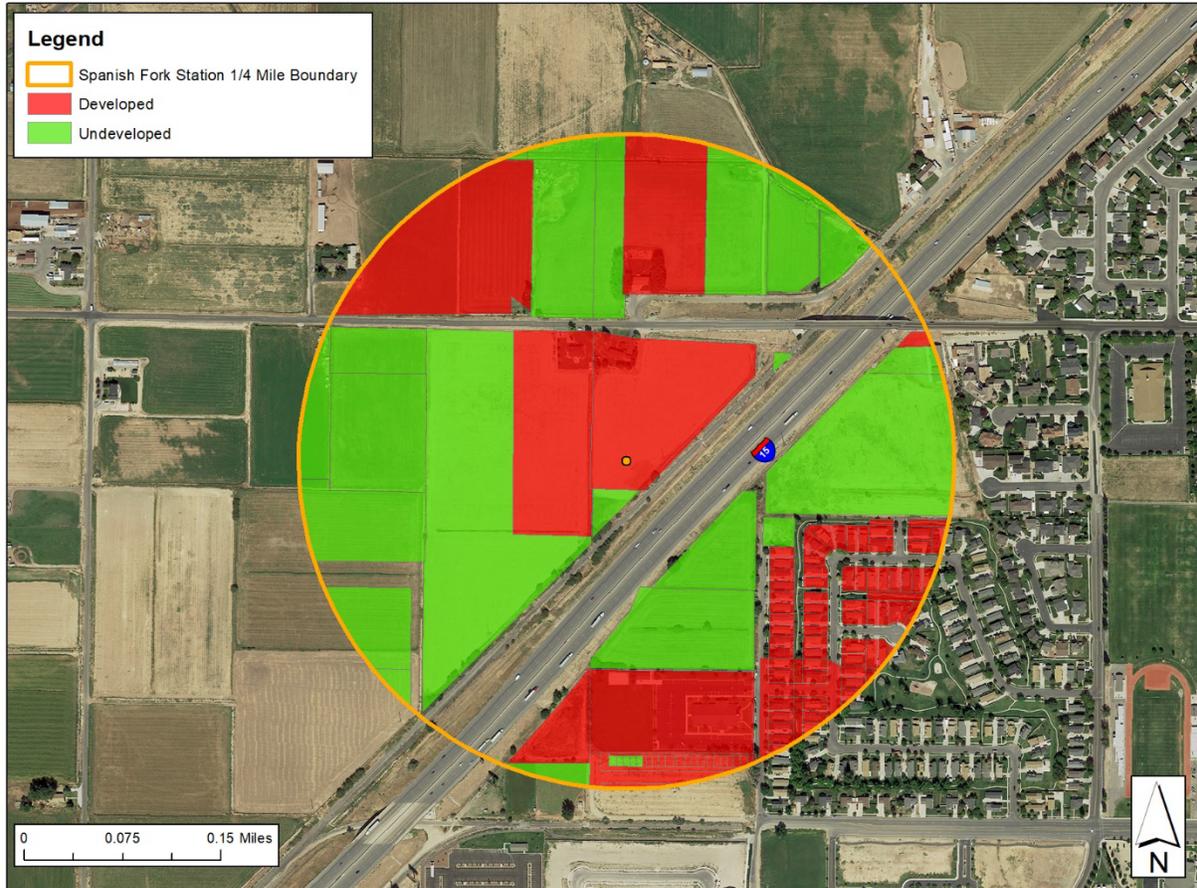


FIGURE 2: SPANISH FORK STATION, ¼-MILE BOUNDARY

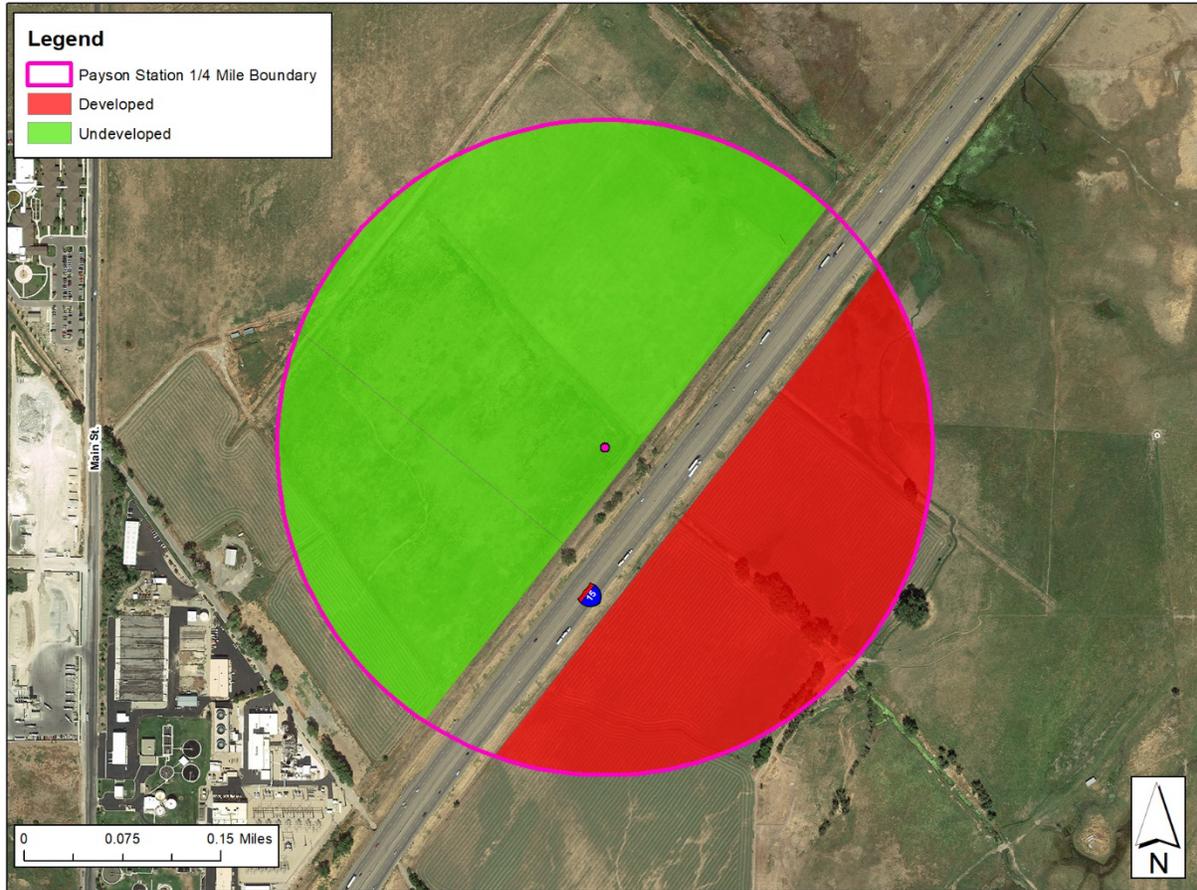


FIGURE 3: PAYSON STATION, ¼-MILE BOUNDARY

TABLE 3: VACANT ACRES WITHIN ¼-MILE RADIUS OF FRONTRUNNER STATIONS

Summary	Vacant Acres
Springville	88.50
Spanish Fork	54.85
Payson	69.29

Source: Utah County Assessor’s Database; ZPFI GIS

With the construction of stations, somewhat higher-density residential development, office space and support retail would be expected to occur. Given the following assumptions for property value per acre, the following incremental revenues could be generated. This is important because it would provide a new revenue stream that could be used for bond payments issued to fund capital infrastructure.

Assumed property values, by development type, as well as potential development scenarios for each site are shown in the table below. The “potential” scenarios shown below are just that – potential options for development. The projections shown are simply examples of the type of development that may take place due to the construction of the transit stations. The intent is simply to show a range of

the magnitude of revenues that could be generated, a portion of which could be used to fund transit, from various types of development.

The potential market values per acre were determined by using current capitalization rates, rent rates and construction costs as researched in today’s market.

TABLE 4: POTENTIAL DEVELOPMENT GROWTH NEAR STATIONS

Summary	Vacant Acres	Retail Acres	Office Acres	20 Units per Acre	8 Units per Acre	Other
Springville	88.50	2	2	20	20	44.50
Spanish Fork	54.85	2	2	20	20	10.85
Payson	69.29	2	2	20	20	25.29
Value per Acre		\$3,000,000	\$4,000,000	\$4,500,000	\$2,500,000	\$1,000,000

The above taxable values are then multiplied by the 2021 tax rates for each taxing entity in order to estimate the potential tax revenues generated by development around station sites.

TABLE 5: 2021 TAX RATES

Taxing Entities	2021 Tax Rate
Springville	0.001497
Spanish Fork	0.001129
Payson	0.001193
Utah County	0.000853
Nebo School District	0.008694
Central Utah Water Conservancy District	0.0004

Source: Utah State Tax Commission

Based on the above values² and tax rates, as well as a ¼-mile radius around the three station sites, it is estimated that roughly \$3.5 million could be generated in property tax revenues annually from the taxing entities. However, it is likely that the entities would choose to contribute only a portion of these revenues, such as 60-75 percent for a period of 20 years, thereby reducing available funds to \$2.1 - \$2.7 million.

TABLE 6: POTENTIAL INCREMENTAL ANNUAL REVENUES FROM TAXING ENTITIES AT BUILDOUT OF VACANT PROPERTIES

	Incremental Taxable Value	City Annual Revenues	Utah County	Nebo School District	CUWCD	TOTAL
Springville	\$115,475,032	\$172,866	\$98,500	\$1,003,940	\$46,190	\$1,321,496
Spanish Fork	\$96,969,384	\$109,478	\$82,715	\$843,052	\$38,788	\$1,074,033
Payson	\$104,909,521	\$125,157	\$89,488	\$912,083	\$41,964	\$1,168,692
TOTAL	\$317,353,937	\$407,502	\$270,703	\$2,759,075	\$126,942	\$3,564,221

² All residential development has been assumed to be primary residences and therefore the 45 percent residential exemption has been applied to the taxable value.

The tax increment available can be vastly increased by including a larger area around the stations. While a ¼-mile radius covers about 125 acres, a ½-mile radius covers roughly 500 acres, or 4 times the area. Larger TRZ project areas could therefore generate 3 to 4 times the tax increment shown above, or closer to \$10 million.

Advantages and Disadvantages

The following table lists the advantages and disadvantages of funding transportation projects with tax increment generated in Transportation Reinvestment Zones:

TABLE 7: TRANSPORTATION REINVESTMENT ZONES AS A FUNDING SOURCE FOR TRANSPORTATION PROJECTS.

Advantages Transportation Reinvestment Zones	Disadvantages Transportation Reinvestment Zones
Creates a new revenue stream.	Revenue directed to transportation projects will not be available to provide other services.
Relatively easy to create.	Requires cooperation between at least two entities.
Projected to produce substantial revenue stream over time.	Must find a nexus with transportation projects to justify use of the increment.
No affordable housing requirement.	Other taxing entities may oppose their use. Revenues may take years to build up as development occurs over time.

HOUSING AND TRANSIT REINVESTMENT ZONES (HTRZs)

HTRZs are another form of tax increment district that attempt to promote higher density housing near major transit stations. The intent is to encourage increased ridership (through a greater population base within walking distance of the station) and to reduce housing costs.

Because of the relatively high-density requirements of 50 units per acre on residential housing within these zones, this tool is more likely to be used in more urbanized areas along the Wasatch Front. However, consideration could be made for land use changes that would allow areas surrounding a future transit station to qualify for HTRZ (Housing and Transit Reinvestment Zone) status.

The HTRZ economic development tool is new as of 2021 and allows for 125 acres within a 1/3-mile radius of a Frontrunner station to be dedicated as a tax increment financing (TIF) area. TIF areas allow for the capture of new growth via property taxes (not a new tax or increase to the tax but more taxes being generated due to increased assessed values) and for the use of those funds within a dedicated area. A HTRZ can capture a maximum of 80% of each taxing entity’s tax increment above the base year for a term of no more than 25 consecutive years on each parcel within a 45-year period not to exceed the tax increment amount approved.

Currently, only Frontrunner station areas are considered for HTRZ implementation, but possible changes to the law may result in more possible areas of implementation. The HTRZ law intends to incentivize significant development near Frontrunner stations and may result in participation in increment sharing

from all taxing entities. This “all-hands-on-deck” approach is anticipated to maximize the transit investment and to encourage uses near transit stations that will utilize the amenity and promote walkable, well connected neighborhoods.

For a city to qualify for HTRZ consideration, the 125 acres must have a minimum designation of 50 residential units to the acre, with 51 percent or more of the land to be zoned for residential use. For nearly all affected communities (those with Frontrunner stations), this will require zoning changes and potentially focused, small area plans.

To best understand necessary zoning changes for the HTRZ tool to be applicable, Highest and Best Use studies will be important. Particularly, a city will need to understand the various fiscal impacts from potential property types, and, if the market will support that use once the transit improvements are in place. If not, the land will remain vacant or underutilized and will not generate the tax increment necessary to create viable incentives.

TABLE 8 Housing & Transit REINVESTMENT ZONES AS A FUNDING SOURCE FOR TRANSPORTATION PROJECTS.

Advantages Housing & Transit Reinvestment Zones	Disadvantages Housing & Transit Reinvestment Zones
Creates a new revenue stream.	Revenue directed to transportation projects now will not be available to provide other services.
Relatively easy to create.	Requires cooperation between at least two entities.
Projected to produce substantial revenue stream over time.	Must find a nexus with transportation projects to justify use of the increment.
No affordable housing requirement.	Other taxing entities may oppose their use.
	Revenues may take years to build up as development occurs over time.
	Relatively high residential density requirements may not be compatible with City vision for the area.

COMMUNITY REINVESTMENT AREAS (CRAs)

A CRA is another form of tax increment area. While each city with a Frontrunner station could create a separate CRA to reinvest the tax increment generated back into the project area, a TRZ would provide more continuity and cohesion between cities along this corridor.

In Utah, tax increment areas have been known by a wide variety of names over time – RDAs, URAs, EDAs, CDAs, and now as CRAs or Community Reinvestment Areas. As of 2016, the Legislature combined all types of project areas—urban renewal, economic development, and community development into a new single “Community Reinvestment Project Area” (CRA). Existing project areas will be allowed to continue, but all new project areas will be known as CRAs.

The CRA Budget may either be approved by a Taxing Entity Committee (TEC) or through Interlocal Agreement with taxing entities, except where the Agency chooses to have a blight study to determine

the existence of blight and to utilize limited eminent domain powers, which requires the approval of a TEC of both blight and the budget.

If there is a finding of blight, 20 percent of the tax increment must be set aside for affordable housing. For all other projects, 10 percent of the tax increment is required to be set aside for affordable housing, if the annual increment is over \$100,000. Noticing and hearing requirements remain unchanged with the CRA designation.

After the tax increment collection period has expired, the tax increment dollars that previously flowed to the CRA will flow to the taxing entities that levy the property taxes within the project area. In most cases, taxing entities receive more property tax revenues annually following expiration of the tax increment collection period than before, as property values are likely to have increased significantly through the redevelopment process.

TABLE 9: COMMUNITY REINVESTMENT AREAS AS A FUNDING SOURCE FOR TRANSPORTATION PROJECTS.

Advantages	Disadvantages
Community Reinvestment Areas	Community Reinvestment Areas
Creates a new revenue stream.	Revenue directed to transportation projects now will not be available to provide other services.
Relatively easy to create.	Requires cooperation of other taxing entities.
Projected to produce substantial revenue stream over time.	10% of revenues must be directed to affordable housing.
	Revenues may take years to build up as development occurs over time.

TAX INCREMENT BONDS

Tax increment Bonds were developed in California in 1952 as an innovative way of raising local matching funds for federal grants. They became increasingly popular in the 1980s and 1990s, when there were declines in subsidies for local economic development from federal grants, state grants, and federal tax subsidies (especially industrial development bonds).

Tax Increment Bonds are collateralized by the incremental growth in property taxes within a given project area. They capture the future tax benefits of real estate improvements to pay the present cost of those improvements. It is a financing strategy designed to make improvements to a targeted project area or district without drawing on general fund revenue or creating a new tax.

Ratings on tax increment bonds are tied to the performance of the area or district, not to the creating government’s general fund. As a result, the ratings differ from those of the creating entity’s general obligation rating. The rating of tax increment bonds hinges on local economics, trends, and taxpayer diversity, with taxpayer diversity being the most highly correlated statistic.

Rating agencies evaluate whether the tax increment revenues could survive the loss of one or more top taxpaying property owners, how debt service could be managed in the case of broad-based decline of assessed value, real estate trends and historical assessed values in the designated area, and the types of properties located or being developed in the tax increment area. The assessed value of hotels is the most volatile, followed by warehouses, commercial, condos, and last residential.

Many issuers opt to offer tax increment bonds on a non-rated basis. It is virtually impossible to secure a rating for or sell a tax increment bond before the increment is actually flowing, unless there is recourse to the local government’s credit or some other enhancement.

Typically, tax increment bonds carry longer terms (anywhere from 10 to 30 years) and are purchased at a fixed rate using larger denominations of \$100,000. There is usually no recourse to either the issuer or the developers who may benefit from the bonds. Pledged revenues vary, but a typical pledge is a senior security interest in the tax increment revenues as well as any debt service reserve funds. The bonds are often offered via a limited public offering and most often sold to institutional buyers (primarily mutual funds and occasionally property/casualty insurers) using a limited offering memorandum.

It is typical to see interest capitalized for at least two to three years to allow increment to begin flowing before debt service payments are required from that increment. Unspent proceeds, capitalized interest and reserve funds are held by a Trustee. Debt service coverage covenants vary based on type of tax increment revenue and other security features associated with the bonds, but minimum coverage requirements are almost always at least 1.25 times annual debt service.

Advantages and Disadvantages

The following table lists the advantages and disadvantages of funding with tax increment bonds:

TABLE 10: TAX INCREMENT BONDS AS A FUNDING SOURCE FOR TRANSPORTATION PROJECTS

Advantages Tax Increment Bonds	Disadvantages Tax Increment Bonds
Create a new revenue stream that can fund capital improvements and economic development.	Tend to carry higher interest and costs of issuance.
Creating entity does not have to bear financial burden alone but can share it with other taxing entities within a project area.	Often require the cooperation and agreement of multiple taxing entities to generate sufficient incremental revenues to finance the desired infrastructure.
Tax increment revenues can be used to pay for administrative expenses.	Bonds can’t be sold unless the tax increment is already flowing or is imminent and nearly certain to flow or is enhanced by a government’s credit or other mechanism.

Advantages Tax Increment Bonds	Disadvantages Tax Increment Bonds
Financial and legal liability is limited by having a redevelopment agency. ³	Typically take longer from start to finish than other financing types. ⁴
Creating entity may gift tax revenues or property to provide incentives for development.	Critics of Tax Increment Bonds sometimes assert that tax increment is just a reallocation of tax revenues by which some municipalities win, and others lose. ⁵
Creating entity may be able to encourage or accelerate the timeframe of desired development types through offering tax increment incentives to the developer.	
Mortgage on the property can also be given as bond security under Utah law in addition to incremental revenue.	

PUBLIC INFRASTRUCTURE DISTRICTS (PIDs)

PIDs are generally most successful in larger, undeveloped areas where there are significant infrastructure needs. Because the unanimous consent of all property owners is required for the creation of a PID, it is difficult to establish PIDs in areas with numerous property owners. A PID is not seen as a likely revenue source for the transit projects but is included in the discussion because it is such a “hot” economic development tool currently in Utah and questions may arise concerning it.

If created, however, a PID can be combined with other revenue sources such as tax increment and those revenues could be used to pay the PID bonds. These funding tools may further facilitate development and increase property values, which may in turn provide for more opportunities to fund transportation infrastructure (through tax increment financing or general tax collection). The PID tool allows for creation of a separate taxing entity in order to fund public infrastructure. Ultimate users of the property pay for the improvements via the taxing entity through property assessments. These assessments permit for bonding, allowing for covering upfront infrastructure expenses that are repaid over periods typically near 30 years. This tool results in higher property taxes for property owners/users in the defined district.

Consequently, benefits beyond the improved infrastructure need to be included in the area. This can be in the form of better landscaping, street lighting, public spaces, parks, trails, finishes, etc. These benefits aid in creating property appeal and property value increases.

³ An RDA is a separate political subdivision which can enter into agreements with developers and issue the bonds.

⁴ It is difficult to estimate the time required for the “political” side of the process, which often requires significant information sharing between local government and developers, including a public hearing for approval of the Project Area Plan and Budget. Setting aside the political requirements, the bond issuance process usually takes three to five months.

⁵ Critics of Tax Increment Bonds sometimes assert that some or all the increment is not attributable to the creation of the tax increment area and that the new property value growth would have occurred anyway.

The PID tool also represents a valuable option for cities who are reticent to bond with property tax revenues in an HTRZ or standard tax increment collection area. Bonding permits for upfront infrastructure costs to be covered, oftentimes expediting development that may not have otherwise occurred. A city may create a PID with no increase in the tax rate and use the PID as a conduit to issue bonds. In this approach, the city is not financially responsible for the bond payments, and the bonding does not affect the city’s credit rating.

The process for starting a Public Infrastructure District begins with a citywide policy. This represents a “30,000-foot” view of the tool for the municipality and merely outlines the guidelines as to how a developer should submit for a PID. The PID policy may incorporate specific goals and vision statements of the city. Once a policy is adopted, a developer may submit a letter of intent to create a PID. This is reviewed by the city, and if approved, governing documents are required to be submitted and approved by the City Council. The simple passing of a general PID policy does not require the City Council to approve governing documents or letters of intent.

Consequently, the PID policy represents another tool that can be used when appropriate. As of mid-2021, several cities throughout Utah have adopted PID policies and multiple public infrastructure districts have been formed.

TABLE 11: PUBLIC INFRASTRUCTURE DISTRICTS AS A FUNDING SOURCE FOR TRANSPORTATION PROJECTS

Advantages PIDs	Disadvantages PIDs
Create a new revenue stream that can fund capital improvements and economic development.	Tend to carry higher interest and costs of issuance.
Any debt issued is not on the books of the local government entity.	Cities may feel it limits public support for future tax rate increases or bond elections due to the perception of already-high rates.
Can raise a significant amount of revenue with legally-allowed tax rates of up to 15 mils.	Requires unanimous support of all taxing entities to put in place.
Accelerates development timeframe through upfront funding for capital costs.	Ongoing PID governance
Can reduce the need for impact fees.	Competitiveness of site with other sites given higher tax rates
Mortgage on the property can also be given as bond security under Utah law in addition to incremental revenue.	
Cost is much lower than other development financing.	

LEGISLATIVE APPROPRIATION

The Legislature could choose to appropriate funds for this project or could authorize the issuance of additional State debt for funding. UDOT currently pays for a large share of its capital program with cash that is appropriated annually for that purpose in the State's budget.

FEDERAL GRANTS AND POTENTIAL FEDERAL FUNDING SOURCES

Infrastructure Investment and Jobs Act (IIJA)

On November 15, 2021, President Biden signed the Infrastructure Investment and Jobs Act (IIJA) – a \$1.2 trillion bill focused on improving and modernizing the country's infrastructure. The bill includes significant provisions for transportation infrastructure in particular, including roadway and bridge repairs; roadway safety; increased funding for public transportation; enhanced freight and passenger rail; and upgrades to the nation's electric vehicle charging network.

Under the IIJA Utah will receive about \$665 million in formula funding over five years to improve public transportation options across the state. This funding amount represents a 38 percent increase over FAST Act formula transit funding levels. The bill also created a number of new competitive grant programs for transportation infrastructure and expanded the scope of several existing programs. The amount received by the State of Utah will not all be available to UTA as a large portion of the funds will be used by UDOT and will therefore not all be available for this project. However, it is still important to point out that there has been an increase in funding to the State and to UTA.

American Rescue Plan Act of 2021 (ARPA)

The American Rescue Plan Act of 2021 (ARPA), which President Biden signed on March 11, 2021, includes \$30.5 billion in federal funding to support the nation's public transportation systems as they continue to respond to the COVID-19 pandemic and support the President's call to vaccinate the U.S. population. The relief funds are distributed as follows, at 100-percent federal share:

- \$26.6 billion to be allocated by statutory formulas to urbanized and rural areas and tribal governments
- \$2.2 billion to FTA grant recipients in communities that demonstrate additional pandemic-associated needs.
- \$1.675 billion for projects in the Capital Investment Grants (CIG) Program (discussed in more detail below)
- \$50 million under the Enhanced Mobility of Seniors and Individuals with Disabilities formula program
- \$25 million for competitive planning grants
- \$5 million for competitive tribal grants

While these funds have now been allocated to other projects, it is still important to include this information in this memorandum because future funds will not now be needed.

Capital Investment Grants (CIG) and Expedited Project Delivery (EPD)

The FTA Capital Investments Grants (CIG) is a discretionary program that funds transit capital investments, including heavy rail, commuter rail, light rail, streetcars, and bus rapid transit. Federal transit law requires transit agencies seeking CIG funding to complete a series of steps over several years. Projects are divided into groups based on their sizes and requirements.

- **New Starts** programs are those which request \$150 million or more or have an anticipated capital cost of \$400 million or more. For these projects, the law requires completion of three phases in advance of receipt of a construction grant agreement – Project Development, Engineering, and Construction
- **Small Starts** projects are those that cost less than \$400 million and total funding sought is less than \$150 million. For these projects, the law requires completion of one phase in advance of receipt of a construction grant agreement – Project Development.

Federal law also requires projects to be rated by FTA at various points in the process according to statutory criteria evaluating project justification and local financial commitments. Due to the scope and cost of the South Valley Transit project, it is likely that New Starts funding would be sought.

The Fixing America's Surface Transportation Act (FAST), enacted on December 4, 2015, is the law that authorizes the CIG Program. It specifies that eligible applicants for the CIG program are State or local governmental authorities. FAST builds upon the changes to the CIG program instituted by the Moving Ahead for Progress in the 21st Century Act (MAP-21) that was enacted on July 6, 2012 and took effect on October 1, 2012. The laws outline a multi-year, multi-step process that proposed transit construction projects must go through to be eligible to receive discretionary CIG program funding from the FTA. The Infrastructure Investment and Jobs Act (IIJA), passed on November 15, 2021, makes additional changes to the CIG program, including an increase in funding through the next five years through the various CIG programs (subject to appropriations).

FTA Expedited Project Delivery Program

The Expedited Project Delivery (EPD) Pilot Program, authorized by the FAST Act, is aimed at expediting delivery of new fixed guideway capital projects, Small Starts projects, or core capacity improvement projects that have not entered into a full funding grant agreement with FTA. These projects must:

- Utilize public-private partnerships,
- Be operated and maintained by employees of an existing public transportation provider, and
- Have a federal share not exceeding 25 percent of the project cost.

The EPD Pilot Program streamlines project delivery of new transit infrastructure that meets program requirements.

Rebuilding American Infrastructure with Sustainability and Equity (RAISE)

RAISE, formerly known as BUILD and TIGER, has awarded over \$8.935 billion in grants to projects in all 50 states, the District of Columbia and Puerto Rico since 2009. Projects for RAISE funding are evaluated

based on merit criteria that include safety, environmental sustainability, quality of life, economic competitiveness, state of good repair, innovation, and partnership. Within these criteria, the United States Department of Transportation under the current administration will prioritize projects that can demonstrate improvements to racial equity, reduce impacts of climate change and create good-paying jobs.

Under the recently-passed IIJA, the RAISE grant program was significantly expanded to include an eligible funding pool of \$15 billion.

For this last round of RAISE grants, the maximum grant award was \$25 million, with no more than \$100 million awarded to a single State, as specified in the appropriations act. Up to \$30 million will be awarded to planning grants, including at least \$10 million to Areas of Persistent Poverty.

[Infrastructure for Rebuilding America \(INFRA\) Grants](#)

The INFRA grant program is a product of the FAST Act. These grants are designed to rebuild America's infrastructure and create jobs by funding highway and rail projects of regional and national economic significance that position America to win the 21st century.

INFRA grants are selected based on several criteria. In addition to prioritizing projects that would improve local economies, create jobs, and meet all statutory requirements, for the first time in USDOT's history, grants were considered by how they would address climate change, environmental justice, and racial equity. INFRA projects are also rated on the extent that they apply innovative technology and whether they can deliver projects in a cost-effective manner.

Eligible applicants for INFRA grants are:

- a State or group of States
- a metropolitan planning organization that serves an urbanized area (as defined by the Bureau of the Census) with a population of more than 200,000 individuals
- a unit of local government or group of local governments
- a political subdivision of a State or local government
- a special purpose district or public authority with a transportation function, including a port authority
- a Federal land management agency that applies jointly with a State or group of States
- a tribal government or a consortium of tribal governments; or
- a multi-State or multijurisdictional group of public entities.

Further, USDOT prioritized funding to rural areas to address historic underinvestment. Approximately 44 percent of proposed funding will be awarded to rural projects, which exceeds the statutory requirements for rural projects set by Congress by 19 percent.

Last year, demand for INFRA grants far exceeded available funds. USDOT evaluated 157 eligible applications from 42 states, as well as Guam. Applicants collectively requested approximately \$6.8 billion in grant funds—more than seven times the funding available. Under the recently-passed IJA, the INFRA grant program was significantly expanded to include an eligible funding pool of \$14 billion.

Advantages and Disadvantages

The following table lists the advantages and disadvantages of funding transportation projects with federal grants:

TABLE 11: FEDERAL GRANTS AS A FUNDING SOURCE

Advantages Federal Grants	Disadvantages Federal Grants
Grants do not need to be repaid.	Qualifying is difficult, time-consuming, and must align with specific, qualifying project.
Federal grants are available for any type of project.	Grants are short term.
There is no limit to the number of grants for which you can apply.	Cannot deviate from original plan or risk repayment.
	Some grants face multiple levels of approval.
	Project cost may increase due to certain federal requirements, such as: Davis Bacon wages, NEPA requirements, Civil Rights requirements in employment and hiring, Uniform Relocation, Buy America provisions for certain construction materials, Titles 23 and 49, etc.

TRANSPORTATION DISTRICT

A new South Utah County Transportation District for roads and transit improvements could be created by Utah County under Title 17 of the Utah Code. The process is initiated either by the County itself by resolution, or by petition from a group of citizens.⁶

The resolution or petition to create a local district must contain a description of the proposed boundaries of the district, a map that shows those boundaries, a description of the services to be provided, the type of local district to be created, the anticipated method of paying the costs of providing the service(s), and the number of board members for the proposed district.

If the local district being created is a basic local district, the petition must also state whether the board members will be appointed or elected, and if one or more board members will be elected, the basis of the election, and, if applicable, how the election or appointment of board members will transition over time from one method to another.

⁶ A local district can also be created by resolution of the Board of another local district as long as the proposed district is being created to provide one or more components of the same service that the creating district is authorized to provide, but which it is not currently providing.

Governing Boards

Every local or special service district is governed by a board of trustees. Each Utah district board must have at least three members, but there is no limit on the number of trustees. The regular term for all board members is four years. There are no limits on the number of terms a person may serve.

Board members of local districts must be registered voters residing within the district. With a few exceptions, the Utah Code prohibits a trustee from also being an employee of the district. All trustees must take an oath of office and be covered by fidelity bond insurance.

Finances

For financial reporting, districts can utilize either a calendar year ending December 31 or a fiscal year ending June 30, as stated in the documents that created the district. All accounting records must be kept according to generally accepted accounting principles (GAAP), and funds, accounts, systems of accounts must also be kept in accordance with the State Auditor's Uniform Accounting Manual for Local Districts. All Utah districts must also comply with the Utah Money Management Act.

Taxes

Each local district may levy a property tax in accordance with the State's Property Tax Act.⁷ Such property tax cannot exceed the certified rate unless one of the following applies:

- Majority of the board of trustees are elected officials
- Property tax has been approved by majority of voters at an election; or
- Property tax has been approved by the legislative body of the majority of municipalities within the district or county within which the district is located.

If a district sets a proposed tax rate which exceeds the certified rate, it cannot adopt its final budget until the public hearing specified in Title 59-2-919 has been held. All districts are subject to limitations on property taxes imposed to pay for operations and maintenance. A new basic local district has a maximum property tax levy of 0.0008.

The maximum allowed property tax levy of 0.0008 within the new district would produce approximately \$7.6 million annually from the southern portion of Utah County.

Impact Fees

If a district desires to impose an impact fee, it must comply with Title 11-36 of the Utah Code and do the following:

- Prepare and pass a resolution calling for the impact fee
- Conduct an impact fee study to determine the appropriate amount of such a fee
- Provide public notice of the possible fee 14 days prior to the public hearing

⁷ Title 59-2 of the Utah Code.

- Hold a public hearing to take comment regarding the proposed fee

Advantages and Disadvantages

The following table lists the advantages and disadvantages of funding transportation projects with impact fees:

TABLE 12: TRANSPORTATION DISTRICT AS A FUNDING SOURCE

Advantages Transportation District	Disadvantages Transportation District
Property taxes are a reliable source of revenue and can be used as a revenue stream for bonding.	Places additional burdens on property owners.
Impact fees can be imposed by the District.	May be difficult to determine the boundaries of the District – who benefits and who does not?
	Adds another layer of government with administrative costs.

PUBLIC PRIVATE PARTNERSHIPS (P3s)

As the federal and state governments continue to grapple with scarce resources in the face of dramatic infrastructure needs, public-private partnerships (P3s) have been increasing as a delivery method.

There is no standard definition that encompasses all aspects of a P3 project. One of the more general definitions is that a P3 is a contractual arrangement between a public agency (federal, state or local) and a private sector entity (often referred to as the “concessionaire”). Through this agreement, the skills and assets of each sector (public and private) are shared in delivering a project for the use of the general public. In addition to the sharing of resources, each party shares in the risks and potential rewards in the delivery of the project.

A P3 is not privatization. The public sector retains ownership and ultimate control of the public asset.

A P3 creates a cooperative venture between the public sector and private companies that may transfer the risks of designing, building, financing, operating, and maintaining infrastructure from a government entity to a group of private partners. If properly structured and well controlled, P3s can benefit both the public authority and the private party. The public is benefitted through the infusion of capital that allows projects to be built on an accelerated schedule while private parties can benefit from the profits generated by the enterprise (assuming that revenues exceed expenses to a degree to make the project attractive to investors).

The allocation of risks is essential to the success of a P3. The main types of risk can be grouped into the following five categories:

Construction Risk

Events related to the construction and completion of the P3 assets, such as delayed completion, non-compliance with specified standards, significant additional costs, technical deficiency and external negative effects (including environmental risk) which trigger compensation payments to third parties.

Availability Risk

Covers situations where, during the operational phase of a P3, an underperformance linked to the condition of the P3 assets results in services being partially or wholly unavailable, or where these services fail to meet the quality standards specified in the P3 contract. All or a portion of the P3 asset becomes “unavailable for use as intended.

Demand Risk

Relates to the variability of demand (higher or lower than expected when the P3 contract was signed), irrespective of the performance of the P3 company. Such a change in demand could be due to factors such as the business cycle, new market trends, a change in final users’ preferences or technological obsolescence. It is part of the usual economic risk borne by private businesses in a market economy.

Political Risk

The chance that political instability may upend the P3 procurement process or disrupt investors’ and lenders’ returns on a P3 project. Policy changes as the result of fluctuating public sentiment have made P3s more susceptible to procurement cancellations and project implementation issues.

Financial Risk

There are uncertainties in the costs and revenues associated with the project not related to market circumstances, but instead related to an intrinsic lack of certainty.

The theory behind a P3 is that looking holistically over the life of the P3 agreement, the private sector can design a more cost-effective project via innovation (while still meeting the minimum requirements), build it cheaper and faster than the public sector, then, in part because of the innovative and cost-effective design and construction, end up with lower maintenance costs over the life of the asset. The claim is that these efficiencies and lower maintenance costs can overcome the financing disadvantage over time, and that the major benefit of the P3 model is that with private capital comes discipline and oversight not feasible at the public-sector level.

Advantages and Disadvantages

The following table lists the advantages and disadvantages of funding transportation projects with Public Private Partnerships:

TABLE 13: PUBLIC PRIVATE PARTNERSHIPS AS A FUNDING SOURCES

Advantages Private Public Partnerships	Disadvantages Private Public Partnerships
Does not affect the entity’s debt limit.	Very complex and not well understood.
May take debt off the government’s balance sheet.	Requires specialized expertise at each step.
No requirement to hold a bond election.	Financing costs are almost always higher than that of the public sector.
May be able to transfer risks of constructing, operating and maintaining the asset to the private sector.	May require tolling, which is politically unpopular.
May produce efficiencies in design, construction, operations, and maintenance.	Costlier if efficiencies do not materialize.

EXISTING REVENUE STREAMS

The traditional, existing revenue streams discussed in this section would either have to be diverted from other projects and uses, or rates/fees would need to be increased to provide additional revenues.

Property Taxes

The southern part of Utah County (incorporated areas only) has a taxable value of \$9.5 billion.⁸ This amount slightly understates the true taxable value as it does not include unincorporated areas of the County such as West Mountain.

⁸ Source: Utah State Tax Commission

TABLE 14: 2020 TAXABLE VALUE OF SOUTHERN UTAH COUNTY

Cities in Southern Utah County and Taxable Value	Taxable Value
Elk Ridge	\$314,442,050
Woodland Hills	\$179,468,449
Genola	\$140,364,432
Goshen	\$41,619,305
Mapleton	\$1,111,654,332
Spanish Fork	\$3,031,443,395
Springville	\$2,642,662,581
Salem	\$15,894,383
Payson	\$1,351,521,602
Santaquin	\$696,578,745
TOTAL	\$9,525,649,274

If taxes were to be increased by \$50 per year on a \$400,000 primary residence in the cities shown above in southern Utah County, annual tax revenues of \$2.16 million would be generated. However, the project improvements would benefit all of Utah County. Therefore, if the County were to increase taxes countywide, additional annual revenues of \$12.5 million could be generated.

TABLE 15: TAX REVENUES GENERATED FROM INCREASE OF \$50 PER YEAR ON A \$400,000 PRIMARY RESIDENCE

Description	Amount
Taxable Value	\$9,525,649,274
Increase in Tax Rate	0.00023
Tax Revenue Generated Annually – Southern Utah County	\$2,164,920
Impact on \$400,000 Primary Residence	\$50
Utah County Taxable Value	\$54,956,245,000
Tax Rate	0.00023
Tax Revenue Generated Annual – Utah County	\$12,490,056

UTA cannot charge a property tax directly. The cities or Utah County would need to allocate a portion of their property tax revenues to this project.

Sales and Use Taxes

This section discusses the many forms of sales and use taxes enacted in Utah County. All counties in Utah have adopted ordinances to impose a 0.25 percent County Option Sales and Use Tax. This tax applies on the purchase price of the same transactions for which statewide sales and local sales taxes apply. Gross taxable sales in Utah County reached \$12,811,205,911 in 2020.⁹ If the County were to increase any of the sales-related taxes discussed in this section by 0.2%, it would generate annual

⁹ Source: Utah State Tax Commission

revenues over \$25.6 million. If the State of Utah were to increase its sales tax rate by 0.05% it would receive an additional \$37.4 million annually.

TABLE 16: SALES TAX REVENUE PROJECTIONS

Description	Utah County	State of Utah
Gross sales 2020	\$12,811,205,911	\$74,730,705,784
Sales tax increase	0.20%	0.05%
Annual revenues	\$25,622,412	\$37,365,353

County option sales and use taxes are collected by the State Tax Commission and distributed on a monthly basis to each county. The distributions are based on a formula that, in general, provides:¹⁰

- (i) 50 percent of each dollar of sales and use taxes collected will be distributed to the county in which the tax was collected; and
- (ii) 50 percent of each dollar of sales and use taxes collected shall be distributed proportionately among all counties imposing the tax, based on the total population of each county.

One of the advantages of sales tax revenues is that public entities have great flexibility in how these revenues may be used. Politically an entity that receives sales tax revenues may not choose to use them to fund transit, but it is a viable option nonetheless.

Utah Transit Authority Sales Tax Revenues

Sales and use taxes received by UTA and pledged under its bond indentures consist of revenues received from the following sales taxes in Utah County:

- 0.25% Mass Transit Sales Tax
- 0.30% Mass Transit Fixed Guideway Tax
- 0.25% County Airport, Highway and Public Transit
- 0.25% Transportation Infrastructure

Mass Transit Sales Taxes

Counties, cities and towns may levy a sales and use tax of up to 0.30 percent to fund a public transportation system.¹¹ However, the maximum rate for the Mass Transit Tax is 0.25 percent for any county, city, or town in which the Mass Transit Fixed Guideway Tax (defined below) is also levied. Utah County levies the 0.25 percent rate under this tax because it has also enacted the Mass Transit Fixed Guideway Tax.

¹⁰ Source: County Option Sales and Use Tax Act, Title 59, Chapter 12, Part 11, Utah Code, the “County Option Sales and Use Tax Act.”

¹¹ Section 2213 of the Sales and Use Tax Act.

Utah County has seen solid growth in these revenues over the past few years:

TABLE 17: UTAH COUNTY MASS TRANSIT TAX REVENUES

	2018	2019	2020
Annual Revenue	\$20,809,463	\$22,274,149	\$24,789,582

Mass Transit Fixed Guideway Taxes

Counties that do not levy, and do not contain any municipalities that levy the Additional Mass Transit Tax (defined below), may, upon approval of the voters of the county at an election, levy a sales and use tax of up to 0.30 percent of taxable sales for fixed guideway, public transit, and highway projects within the county.¹² Utah County is the only county in the State that has levied the Mass Transit Fixed Guideway Tax.

Interlocal Utah County BRT Agreement. In August 2018, UTA began operations of the Provo–Orem BRT. In 2016, Utah County issued \$65 million subordinated transportation sales tax revenue bonds, which proceeds were used to construct portions of the Provo–Orem BRT. UTA and Utah County entered into an interlocal agreement that requires UTA to reimburse Utah County for all bond costs (principal, interest, and cost of issuance) prior to December 31, 2028.

As of Fiscal Year 2020, the principal balance outstanding on this interlocal loan agreement is \$65,665,597. However, UTA has also agreed to reimburse Utah County an additional \$10,422,107 (consisting of interest on bonds; operation and maintenance support costs; project studies; and interest on operation and maintenance costs). Payments to Utah County for the additional \$10,422,107 are to be completely paid by UTA by the end of Fiscal Year 2021. Revenues to pay for the interlocal loan agreement and the additional reimbursements are collected from the Utah County’s County Option Proposition 1 Tax, collected by the State Tax Commission, and then paid to UTA.

Additional Mass Transit Taxes – County, Airport, Highway and Public Transit

Any county, city or town may, upon approval of the voters of such entity at an election, levy an additional sales tax to fund a system for public transit or a project or service related to an airport facility of up to 0.25 percent on all taxable sales within its boundaries.¹³

County Option Transportation Taxes

Additionally, counties may, upon approval of the voters of the county at an election, levy a sales and use tax of up to 0.25 percent of taxable sales for corridor preservation, congestion mitigation, or to expand capacity for regionally significant transportation facilities.¹⁴

¹² Section 2216 of the Sales and Use Tax Act.

¹³ Section 2214 of the Sales and Use Tax Act. Less 20% of such taxes in the case of counties of the first class (i.e., Salt Lake County), which is allocated to fund highway and other improvements.

¹⁴ Section 2217 of the Sales and Use Tax Act; less 25% of such taxes in the case of counties of the first or second class, which is allocated to highway projects.

[New Fifth Cent Sales Tax \(59-12-2220 Sales Tax\)](#)

In 2018, Senate Bill 136 also provided for a new 0.20 percent sales tax that may be imposed beginning July 1, 2019 by any county that had already imposed every other county option sales tax allowed under Utah Code Section 59-12. Utah County is eligible to impose this tax in the future. The funds must be spent for public transit purposes. This new tax must be imposed before June 30, 2023.

GENERAL OBLIGATION (GO) BONDS

General obligation bonds are the least expensive way of issuing debt. The following section provides a brief background about these types of bonds.

State

The State has bonded for various transportation projects from time to time by issuing general obligation bonds. There are various limits imposed on the amount of GO bonds the State may have outstanding at any time. The State carefully monitors its debt limits and carefully plans for when existing bonds will expire and new debt can be issued.

Counties

The general obligation indebtedness of all Utah Counties is limited by State law to two percent of the fair market value of taxable property in the County.¹⁵ For debt incurring capacity only, the value of all motor vehicles and state-assessed commercial vehicles are included as a part of the fair market value of the taxable property in the County.¹⁶ Similar to the State of Utah, net unamortized premium on GO bonds is included as outstanding debt when calculating the GO debt limit.

Cities

The amount of general obligation indebtedness of each city in Utah is limited by State law to four to eight percent of the fair market value of taxable property in the City¹⁷; as computed using the last equalized assessment rolls for the State or County purposes prior to incurring the general obligation debt.

Advantages and Disadvantages

The following table lists the advantages and disadvantages of funding transportation projects with GO bonds.

¹⁵ Based on the last equalized property tax assessment roll.

¹⁶ The value of all motor vehicles and state-assessed commercial vehicles is determined by dividing the uniform fee revenue by 1.5%.

¹⁷ *Based on the last equalized property tax assessment roll.* Four percent for general purposes and an additional four percent for sewer, water, and electric purposes.

TABLE 18: GENERAL OBLIGATION BONDS AS A FUNDING SOURCE

Advantages General Obligation Bonds	Disadvantages General Obligation Bonds
GO bonds carry the lowest interest rates of all the funding mechanisms. ¹⁸	Property tax levied to support a GO bond can only be levied to pay debt service and only for so long as the bonds are outstanding.
Lowest costs of issuance compared to other funding vehicles. ¹⁹	Once a bond has matured, a tax levy to support it is no longer valid and must be eliminated or “sunsetting.” This is not true for the sales tax. It does not currently have a sunset provision.
	Voter approval is required before GO bonds may be issued by all local governments in Utah. ²⁰ State GO bonds issued when authorized by a simple majority of the State Legislature.
	Cost, timing requirements, and political uncertainty associated with a GO bond election channel many local governments into the use of other financing vehicles.

UTA RIDERSHIP AND FARE INCREASES

If higher-density development occurs near transit stations, this will likely increase transit ridership. However, current rider fares in the Utah Transit Authority service area generate only enough revenue to pay for just under 20 percent of the cost of operating the system (called “farebox recovery”). This means that relative to the overall UTA budget, rider fares are actually a small component of paying for transit service, and don’t generate any excess revenues to contribute towards debt service for UTA bonds.

UTA uses a pricing model that measures the elasticity of demand for bus and transit service, setting rates at a level that optimizes both ridership and revenues. UTA has for years acknowledged that steep fare increases would lead to commensurate drops in ridership. Such fare increases could result in lower overall farebox revenues, thus completely defeating the purpose of the fare increase. On the other hand, free transit rides offered on days with extremely poor air quality, or on days like “Free Transit Friday,” have been shown to result in higher ridership (with obviously lower revenues).

UTA received a federal grant associated with the new Utah Valley Express (UVX) bus rapid transit service in the Provo/Orem area that made the service free for at least the next three years. In addition, UTA has entered into broad agreements with businesses and universities that allow significantly discounted or

¹⁸ Due to the strength of the security (full faith, credit, and taxing power).

¹⁹ Due to the simple legal documentation and ease in selling such bonds into the market. The State’s 2018 15-year General Obligation Bonds sold at a True Interest Cost of 2.54% which was an average of about 3 basis point under the Municipal Market Data AAA General Obligation Bond Index.

²⁰ Source: State Constitution.

free ridership access for employees, students and their families. If anything, the pricing model for transit in Utah has recently been moving toward less expensive service to promote higher ridership, as opposed to looking at fare increases that might bring in additional revenue but would likely decrease the number of users. Rider fare increases are not capable of generating sufficient additional revenues to fund projects.

Advantages and Disadvantages

The following table lists the advantages and disadvantages of funding transportation projects with rider fare increases:

TABLE19: UTA RIDER FARE INCREASE AS A FUNDING SOURCE

Advantages	Disadvantages
UTA Rider Fare Increase	UTA Rider Fare Increase
Links usage to payment.	Will reduce demand for service pushing people to use vehicles.
	Limited and potentially no ability to raise additional revenue.

MOTOR VEHICLE REGISTRATION FEES

Article 13, Section 5 of the Utah State Constitution allows the State to levy a fee, tax, or other charge “related to the operation of motor vehicles on public highways.” The funds can be used for construction, maintenance, and repair of State and local roads, including property acquisition or any debt obligation created to fund those uses. The Constitution does not specifically include payments for mass transit systems as an allowable use of motor vehicle registration fees.

However, UDOT allocates revenues, a portion of which are received from motor vehicle registration fees, to both the Transportation Fund and the Transportation Investment Fund (TIF and TTIF). In FY 2021, Utah allocated \$55.3 million to the Transportation Fund from this source and \$90.3 million to the Transportation Investment Fund. This is not a likely source of funding for commuter rail in southern Utah County unless the Legislature were to change the allowable uses and current allocation system.

Vehicle Registration Fees Allocation

63% Transportation Investment Fund

33% General Transportation Fund

<5 % Other

TABLE 20: UTA 2022 TRANSPORTATION BUDGET

Revenues		Expenses	
Motor Fuel	\$385,369,000	Support Services	\$39,823,300
Special Fuel	\$169,220,000	Engineering Services	\$31,776,000
Motor Vehicle Registration	\$57,179,800	Operations/Maintenance	\$175,388,400
Provisional Registration Fees	\$19,649,080	Region Management	\$28,847,800

Revenues		Expenses	
Special Transportation Permits	\$13,015,080	Highway Systems Construction	\$137,329,661
Highway Use Tax	\$11,564,852	Safe Sidewalk	\$500,000
Vehicle Control Fees	\$7,590,123	B&C Roads	\$202,442,100
Interest Income	\$7,300,787	Transfer to TIF	\$46,778,839
Motor Carrier Fees	\$3,587,723	Other Agencies	\$11,920,900
Temporary Permits	\$330,555		
Total Transportation Funds	\$674,807,000		\$674,807,000

UTAH DEPARTMENT OF TRANSPORTATION (UDOT) GAS TAXES

The State imposes a Motor Fuel Tax on each gallon of gasoline sold at the pump. Effective January 1, 2021, the tax was \$0.314 per gallon. These taxes are directed to the Transportation Fund and must be used exclusively for highway purposes.²¹ The term “highway” means “any public road, street, alley, lane, court, place, viaduct, tunnel, culvert, bridge, or structure laid out or erected for public use, or dedicated or abandoned to the public, or made public in an action for the partition of real property, including the entire area within the right-of-way.”

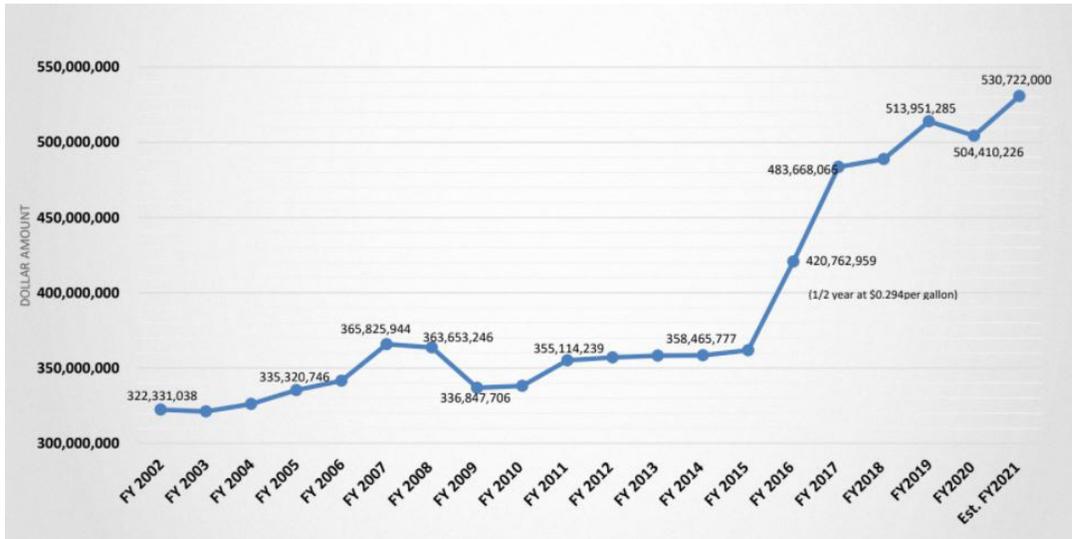
Gas Tax Revenues FY 2021
 \$384.5 million
 Directed to the Transportation Fund
 for Highway purposes (70% of
 Total Revenues)

Going forward, the tax will be indexed to the average rack price at the pump based on an annual calculation of the three-year average rack price based on a June 30 year end and is capped at \$0.40 per gallon. The current allocation formula requires that 30 percent of the motor fuel taxes collected be distributed to counties and cities through the Class B & C Road Fund program. The remaining 70 percent is retained by UDOT to address statewide transportation needs.

Total motor fuel and special fuel tax revenues are summarized in the figure below.

²¹ Utah Code §72-2-102.

FIGURE 5: MOTOR FUEL AND SPECIAL FUEL TAX REVENUES



UTAH TRANSIT TRANSPORTATION INVESTMENT FUND (TTIF)

UDOT has provided the following estimates for its FY2022 TTIF budget. There is a detailed prioritization scoring process for receiving TTIF funds. South Valley Commuter Rail (Provo to Payson) was the top-scoring project on UDOT’s TTIF Transit Prioritization Ranked List (October 2021) by a large margin.

TABLE 21: 2022 TTIF BUDGET

Estimated Revenues	Amount	Appropriated Budget	Amount
Sales Tax	\$13,005,800	Current Projects	\$13,005,800
General Fund	\$101,600,000	Fronrunner Commuter Rail System	\$100,000,000
		Vineyard Station	\$1,600,000
Total	\$114,605,800	Total	\$114,605,800

Source: https://drive.google.com/file/d/1dRPM178_H9s22IvZ_hMVuKbXhjBfDYUW/view

In comparison, the Transportation Investment Fund (TIF) anticipates revenues and expenses of \$1.56 billion in 2022. These funds are reserved for highway projects whereas TTIF funds are directed at transit projects.

UTAH DEPARTMENT OF TRANSPORTATION (UDOT) SURPLUS BUDGET ALLOCATION

During the 2021 session of the Utah State Legislature, the Utah Dept. of Transportation received \$869.6 million in one-time funding for a variety of projects around the state as well as authorization for \$264 million in new bonding to be used chiefly for improvements to the Front Runner commuter rail line.

While these projects have already been prioritized, future Legislative allocations could be a source of funding for the South Utah County transit project.