Rhode Island Transit Master Plan

Potential Funding Approaches

January 7, 2021

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1. Introduction

Introduction

The strength of Rhode Island's economy is directly tied to the strength of its transportation network. In a similar manner as RhodeWorks identified and is implementing improvements to the state road network, Transit Forward RI has been designed to determine the corresponding improvements that should be made to the state's transit services.

As was also the case with RhodeWorks, the implementation of Transit Forward RI will require additional resources. This document presents potential funding options and includes:

- An overview of the Transit Forward RI program.
- A description of how Transit Forward RI compares with similar programs elsewhere in the United States.
- A description of existing and potential new funding sources.
- Example funding options.

This plan also includes a number of notes and caveats:

- First and foremost, this is a first draft intended for review by policymakers and is subject to change.
- The cost estimates are based on order-of-magnitude costs as is typical for programs in this state of development. These costs will be refined as projects are further developed.
- All costs are in 2020-21 dollars.
- The estimates do not include financing costs, which may be incurred for some projects.

2. Program Overview

Program at a Glance

Transit Forward RI is based on five major initiatives:

Initiative 1
Improve Existing Services

Initiative 2
Expand Services to New Areas

Initiative 3
Upgrade Services/Develop High Capacity Transit

Initiative 4
Improve Access to Transit

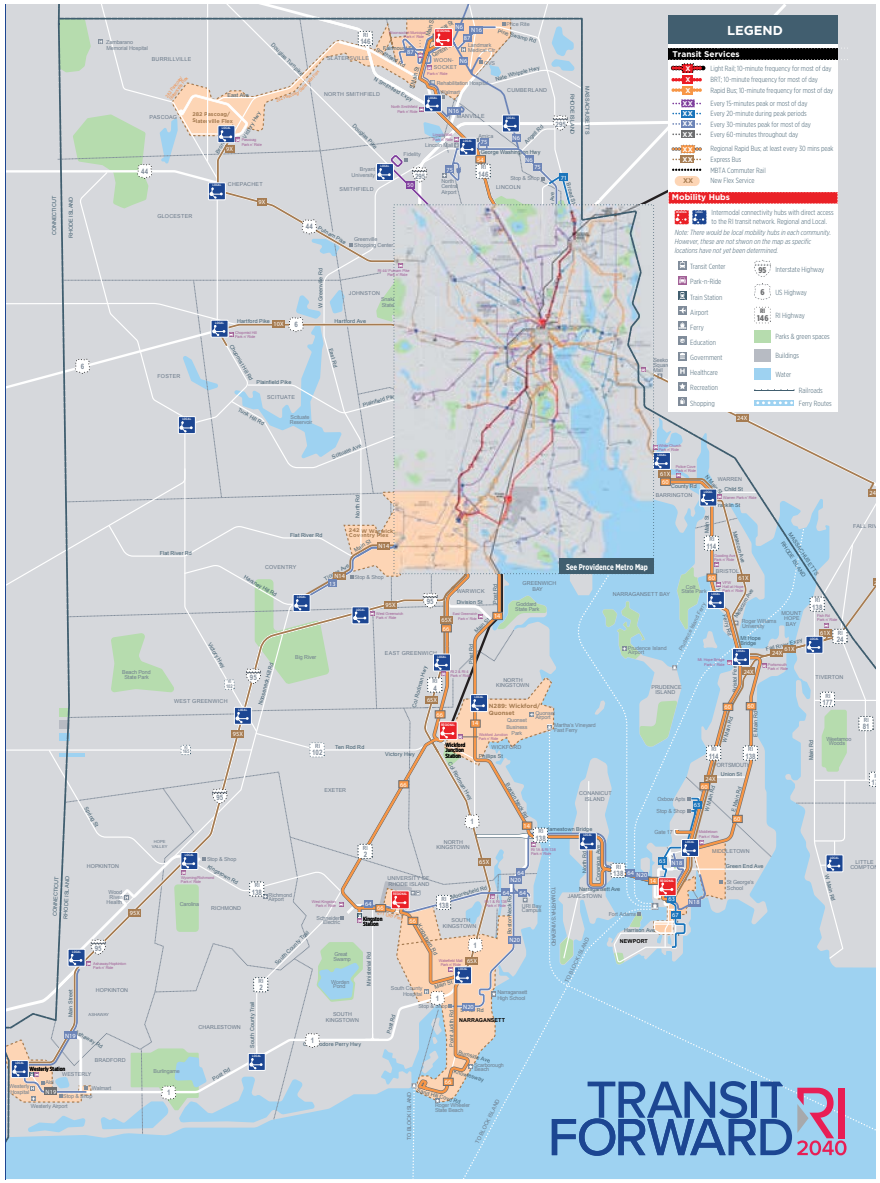
Initiative 5
Make Service Easier to Use

The major elements of these initiatives include:

- A Frequent Transit Network that will provide frequent service for long hours to Rhode Island's most important destinations.
- More frequent service for longer hours on most routes
- The expansion of service to new areas.
- Two light rail or BRT lines, 7 Rapid Bus lines (similar to the R-Line), four Regional Rapid Bus lines, and an east-west Downtown Transit Connector.
- Greatly improved commuter rail service between Rhode Island and Boston.
- An Amtrak station at TF Green Airport.
- Better options to get to and from transit.
- New technologies that make service easier to use.

Detailed information on the program is presented in the Recommendations Briefing Book, which is available on the project website at transitforwardri.com

Transit Forward RI Services
(see transitforwardri.com for more detailed maps)



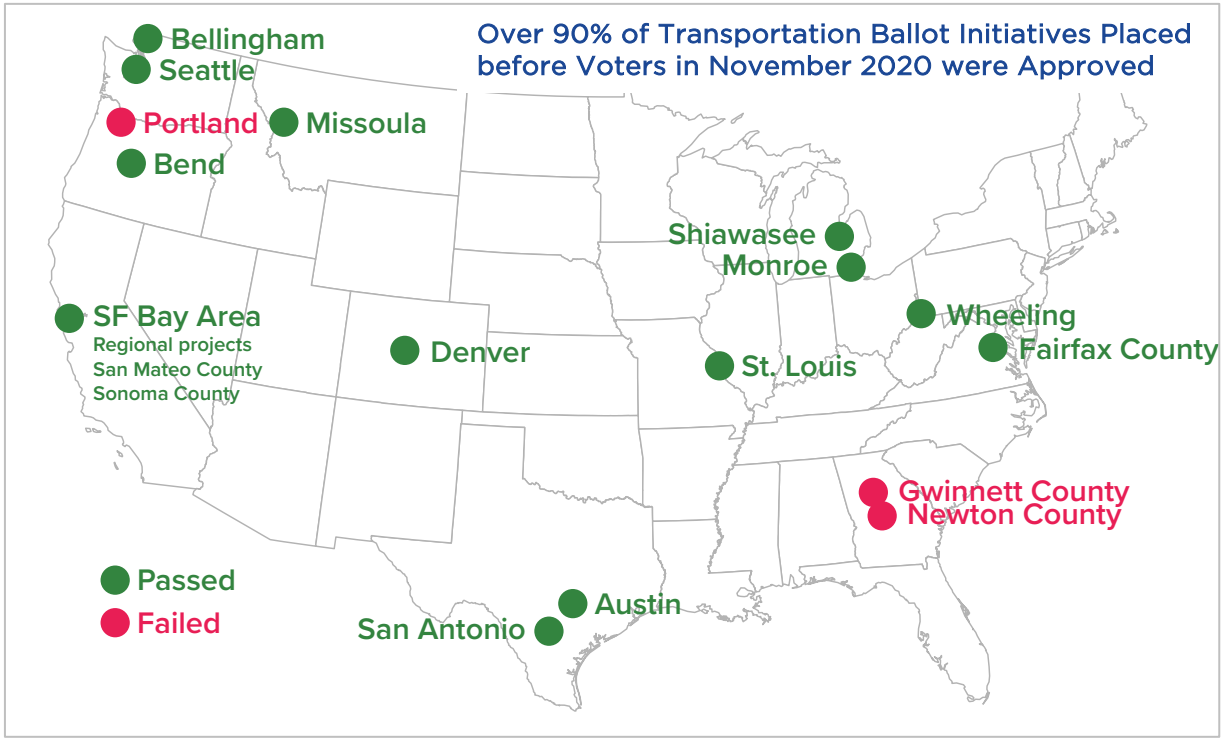
3. How This Plan Compares to What Other Places are Doing

How This Plan Compares to What Other Places are Doing

Many cities, regions, and states throughout the country have either recently or are now pursuing transit improvements plans such as this one. These programs are one of the primary ways that places compete for residents and jobs. The overall Transit Forward RI plan draws upon lessons learned from those areas, including how they have addressed similar funding challenges.

As is the case with this plan, virtually all the plans being developed and/or implemented elsewhere have required significant increases in expenditures. In most cases, the enactment of new revenue sources required enabling legislation and/or voter approval. Since 2000, funding initiatives have been on the ballot in 41 states and over 70% have succeeded.[1] More recently, the success rate has increased, and in the November 2020 election, over 90% of transportation measures, many of which were major transit initiatives, passed.

Table 1 presents information on a large selection of ballot measures on funding transit improvement plans since 2015 that share similarities with Transit Forward RI. As shown, a wide variety of funding sources have been and are being used. Some initiatives are funded through a single source, while others are funded through multiple sources.



Additional information on five of these is presented in the following sections:

- Project Connect in Austin, TX, where in November 2020, voters approved a property tax increase to fund the program.
- Reinventing Metro in Hamilton County, OH, which is where Cincinnati is located. Earlier this year, voters approved a 0.8% sales tax increase to fund the program.
- Wake County Transit Plan in Wake County, NC, which is home to Raleigh. In 2016, voters approved a 0.5% sales tax and a $10 increase in vehicle registration fees to fund the program.
- Indy Connect in Marion County, IN, which is where Indianapolis is located. In 2016, voters approved an income tax increase to fund the program.
- Let's Move Nashville, where voters rejected increases in sales, hotel, rental car, and other taxes that would have funded the program.

[1] Center for Transportation Excellence

Table 1 | Illustrative Transit Funding Ballot Issues in the United States Since 2015

LOCATION	PLAN NAME	CAPITAL COST	DATE/OUTCOME	REVENUE TYPE	ANNUAL REVENUE
Austin, TX	Project Connect	$7 B	2020 Passed	Property tax increase of 8.75¢ per $100 of assessed value	$175 million
San Antonio, TX	Keep SA Moving		2020 Passed	Reallocation of 1/8¢ of existing sales tax to transit	$38.5 million
Portland, OR	Get Moving 2020	$7 B	2020 Failed	0.75% payroll tax on employers; $56 vehicle registration fee	$300 million
Gwinnett County, GA	Connect Gwinnett	$12 B	2020 Failed	1% sales tax	$404 million
Hamilton County (Cincinnati), OH	Reinventing Metro	$2 B	2020 Passed	0.8% sales tax increase	$130 million
Harris County (Houston, TX)	MetroNEXT	$3.5 B	2019 Passed	Bond	$175 million
San Mateo County, CA	Get Us Moving San Mateo County	$2.4 B	2018 Passed	0.5% sales tax increase	$48 million
Hillsborough County (Tampa), FL	All for Transportation	$8.3 B	2018 Passed	1% sales tax increase	$124 million
Bay Area, CA	Regional Measure 3	$4.45 B	2018 Passed	$3 increase in tolls on region's seven state-owned toll bridges: $1 increase in 2019 and additional $1 increases in 2022 and 2025.	$125 million
Nashville, TN	NMotion	$5.4 B	2018 Failed	1% sales tax increase, 0.375% increase to hotel-motel tax, 0.2% local car rental tax increase, increase in existing business and excise tax	$243 million
Seattle, WA	Sound Transit 3	$53.8 B	2016 Passed,	0.5% sales tax increase, 0.8% motor vehicle excise tax, property tax of 25 cents per $1,000 in assessed value	$3.6 billion
Wake County (Raleigh), NC	Wake County Transit Plan	$2.3 B	2016 Passed	0.5% sales tax and $10 increase in vehicle registration fees	$87 million
Marion County (Indianapolis), IN	Indy Connect	$1.2 B	2016 Passed	Income tax increase of 25 cents for every $100 of income	$56 million
Atlanta, GA	More MARTA	$2.7 B	2016 Passed	0.5% sales tax increase	$62.5 million
Spokane, WA	STA Moving Forward	$200 million	2016 Passed	0.2% sales tax increase	$18 million
Franklin County (Columbus), OH	NextGen (Issue 60)	$620 million	2016 Passed	Renewal of 0.25% sales tax that was due to expire	$62 million
Santa Clara County, CA	Envision Silicon Valley	$3 B	2016 Passed	0.5% sales tax increase	$101 million
Pulaski County (Little Rock), AR	Move Central Arkansas	$180 million	2016 Failed	0.25% sales tax increase	$18 million
Phoenix, AZ	MovePHX	$31.7 B	2015 Passed	0.7% sales tax increase	$478 million

Project Connect (Austin, TX)

Outcome: Passed 58% - 42%

In November 2020, Austin, TX voters approved a property tax increase to fund its $7 billion Project Connect Plan. Project Connect is similar to Transit Forward RI in many respects, but more ambitious. Major elements include:

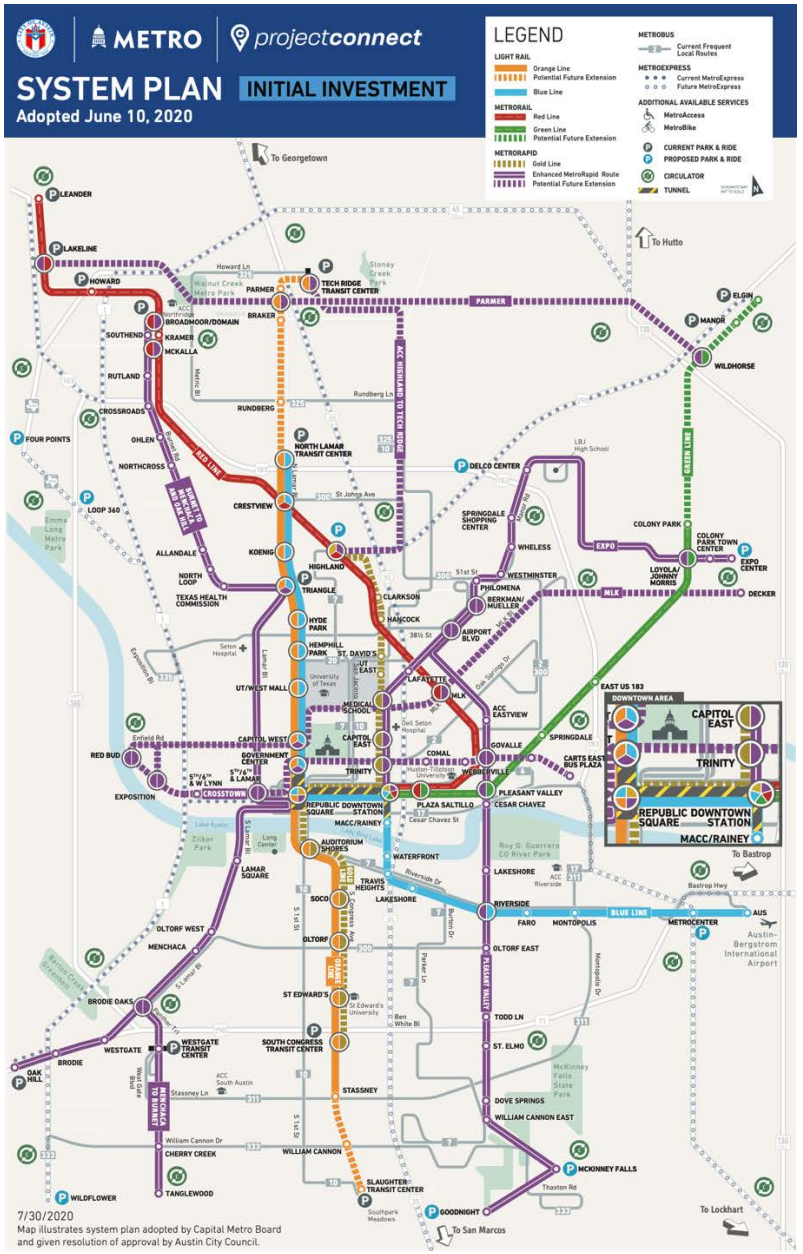
- 27 miles of light rail
- 1 new commuter rail line
- 1 expanded commuter rail line
- A downtown transit tunnel
- 4 Rapid Bus routes
- 3 new express routes
- 9 new park and ride lots
- 15 new on-demand service zones

Key financial elements of the plan include:

	PROJECT CONNECT	TRANSIT FORWARD RI
Length of Plan	20 years	20 years
Capital Cost	$7 billion	$1.9 – 3.1 billion
Capital Cost per Capita	$5,549	$1,595-2,687
Funding Source	Income Tax increase of 8.75¢ per $100 of assessed value	TBD
Annual Revenue Generated	$175 million	$86-117 m (need)
Annual Revenue per Capita	$139	$81-$110 (need)

Capital Metro, which is Austin's transit provider and the project sponsor, projects that federal funding will cover approximately 45% of total project costs and that increases in existing revenue sources and the property tax increase will fund the remainder.

For more information on Project Connect, see: https://capmetro.org/projectconnect/



Reinventing Metro (Cincinnati/Hamilton County, OH)

Outcome: Passed 50.5% - 49.5%

On April 28, 2020, voters in southwest Ohio narrowly elected to increase their sales tax by 0.8% to invest millions into a countywide transportation package, with the vast majority of funding dedicated to Cincinnati Metro transit agency. Reinventing Metro's components are similar to Transit Forward RI's bus service-related enhancements:

- 2 Bus Rapid Transit lines
- 14 route Frequent Transit Network
- 6 route 24-hour bus network
- 8 new local bus routes and 4 new crosstown routes
- Significantly expanded access to paratransit service

The plan also includes local street repair and maintenance projects.

Key financial elements of the plan include:

	REINVENTING METRO	TRANSIT FORWARD RI
Length of Plan	10 years	20 years
Capital Cost	$2 billion	$1.9 – 3.1 billion
Capital Cost per Capita	$2,685	$1,595-2,687
Funding Source	0.8% sales tax increase	TBD
Annual Revenue Generated	$175 million	$86-117 m (need)
Annual Revenue per Capita	$175	$81-$110 (need)

Cincinnati Metro will receive 77% of the additional sales tax revenue. The rest of the revenue will be directed to the local street repair and maintenance projects.

For more information on Reinventing Metro, see: http://reinventingmetro.com/.

Wake Transit Plan (Raleigh NC Area)

Outcome: Passed 53% - 47%

In 2016, Wake County voters approved a 0.5% sales tax increase and a $10 increase in annual vehicle registration fees to fund the Wake Transit Plan. The $2.3 billion plan is based on four "Big Moves:"

1. Connect Regionally
2. Connect All Wake Communities
3. Frequent, Reliable Urban Mobility
4. Enhanced Access to Transit

Major elements include:

- 2 Bus Rapid Transit lines
- 83 mile Frequent Transit Network
- New 37-mile commuter rail line
- 1 Regional Rapid Bus line
- 8 new express routes

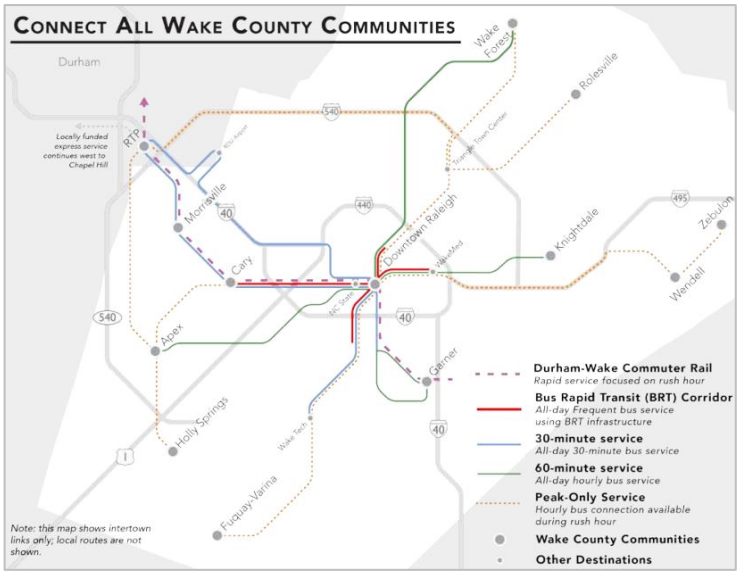
Key financial elements of the plan include:

	WAKE COUNTY TRANSIT PLAN	TRANSIT FORWARD RI
Length of Plan	10 years	20 years
Capital Cost	$2.3 billion	$1.9 – 3.1 billion
Capital Cost per Capita	$2,246	$1,595-2,687
Funding Source	0.5% sales tax increase and $10 vehicle registration fee increase	TBD
Annual Revenue Generated	$87 million	$86-117 m (need)
Annual Revenue per Capita	$85	$81-$110 (need)

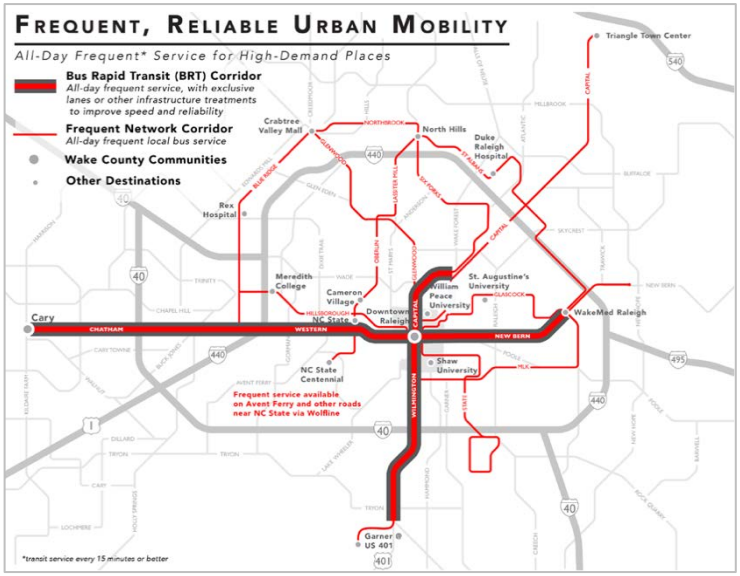
The sales tax and registration fee increases will provide the required local revenues.

For more information on the Wake Transit Plan, see: https://goforwardnc.org/county/wake-county/the-plan/.

Big Move 2



Big Move 3



Indy Connect (Indianapolis/Marion County IN)

Outcome: Passed 58% - 42%

Indianapolis' transit system, IndyGo is in the process of improving service frequencies and lengthening service hours. Highlights of the program include:

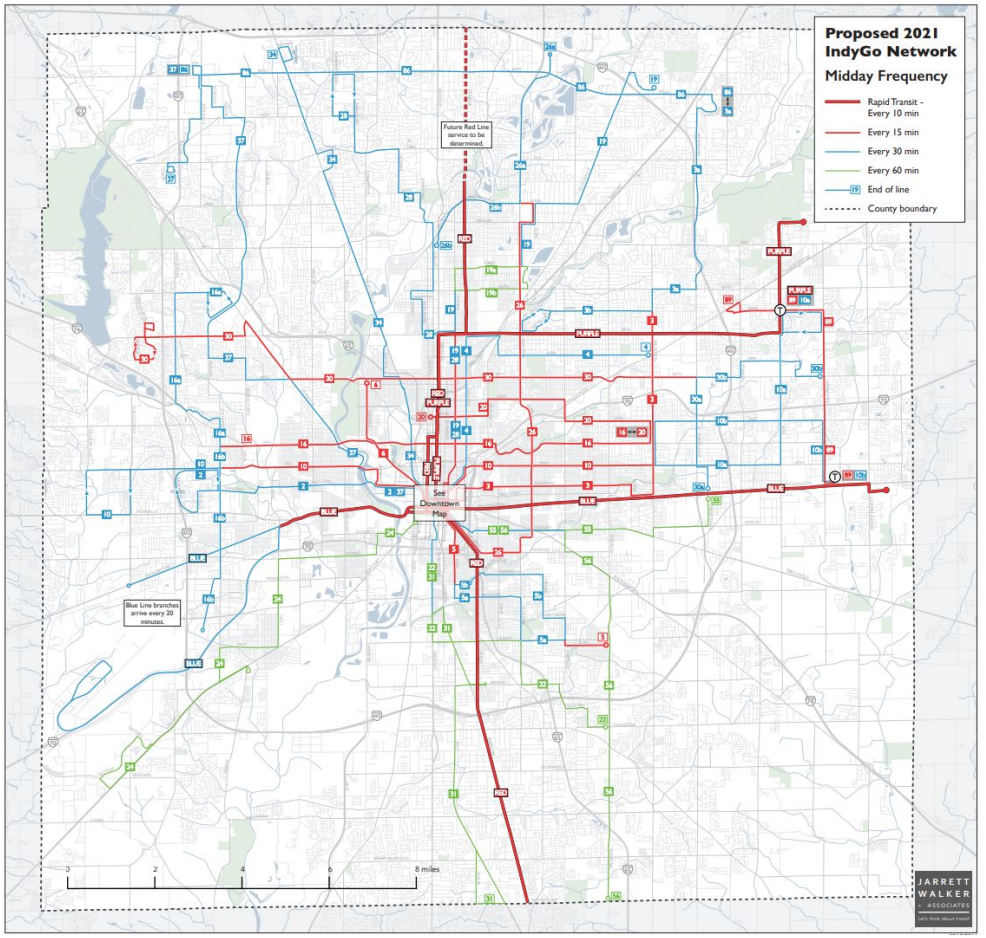
- 3 Bus Rapid Transit lines
- A 13 route Frequent Transit Network
- Longer service hours on most routes

Key financial elements of the plan include:

	INDY CONNECT	TRANSIT FORWARD RI
Length of Plan	15 years	20 years
Capital Cost	$1.2 billion	$1.9 – 3.1 billion
Capital Cost per Capita	$807	$1,595-2,687
Funding Source	Income tax increase of 25¢ for every $100 of income	TBD
Service Area Population		
Annual Revenue Generated	$56 million	$86-117 m (need)
Annual Revenue per Capita	$38	$81-$110 (need)

For more information on Indy Connect, see: https://indyconnect.org/the-central-indiana-transit-plan/the-marion-county-transit-plan/.

Indy Connect Frequent Transit Network



Let's Move Nashville (Nashville, TN)

Outcome: Failed 36% - 64%

Nashville's ambitious transit plan funded by a number of tax and fee increases failed in a special election in May 2016. The Let's Move Nashville plan proposed a radically expanded regional transit network centered on a new light rail and BRT network. Major elements included:

- 4 light rail lines
- 3 Bus Rapid Transit routes
- 9 Rapid Bus routes
- 4 Regional Rapid Bus routes
- 11 Freeway BRT routes
- Expanded frequent local bus network

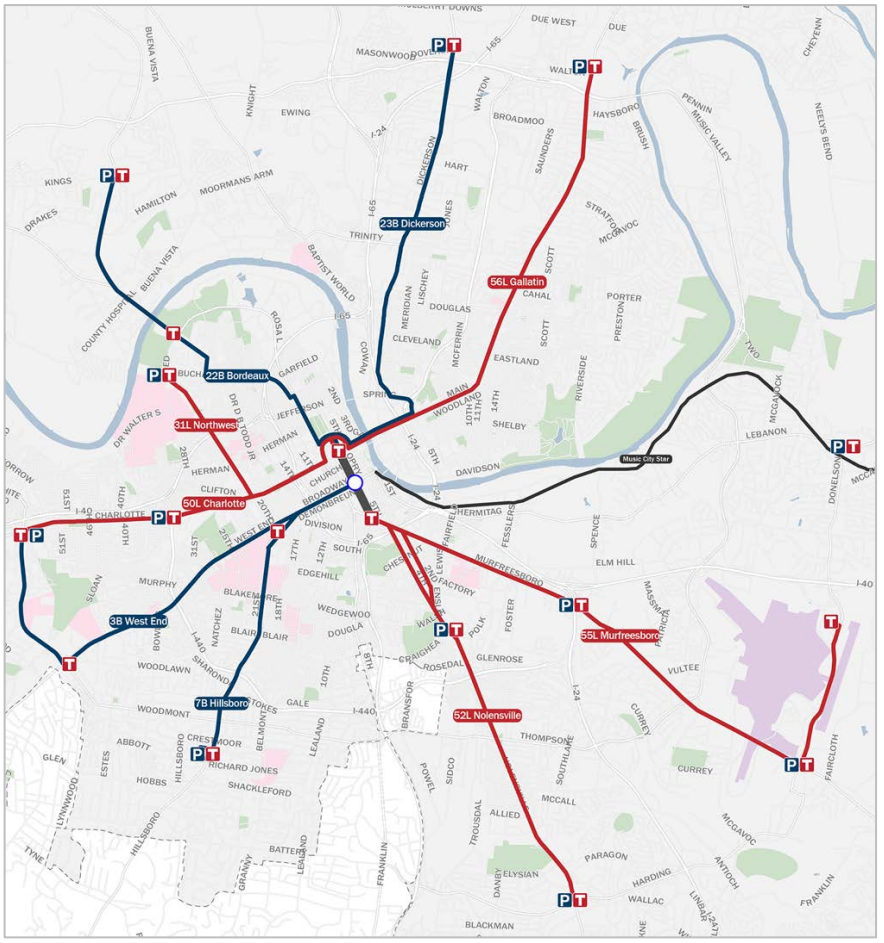
Key financial elements of the plan include:

	LET'S MOVE NASHVILLE	TRANSIT FORWARD RI
Length of Plan	20 years	20 years
Capital Cost	$5.4 billion	$1.9 – 3.1 billion
Capital Cost per Capita	$5,569	$1,595-2,687
Funding Source	1% sales tax increase, 0.375% increase in hotel-motel tax, 0.2% increase in car rental tax, increases in business and excise taxes	TBD
Annual Revenue Generated	$243 million	$97-127 m (need)
Annual Revenue per Capita	$251	$92-$120 (need)

Post-mortem analyses of the failure of the nMotion campaign have cited a number of reasons for the initiative's failure. Three of the most important included a scandal involving the mayor, who was a strong proponent of the plan; a very effective opposition group that received significant amounts of funding from outside groups, including the Koch brothers; and the sales tax increase, which would have produced the highest sales tax in the country.

For more information on nMotion, see: https://www.nmotion.info/wp-content/uploads/2017/01/3-The-Plan-161221.pdf.

Let's Move Nashville Light Rail and Rapid Bus Lines



4. Costs, Available Funding, and Additional Need

Costs, Available Funding, and Additional Needs

Transit Forward RI represents a major investment in Rhode Island's transit services, its people, and its economy. As such, associated costs will be much higher than what Rhode Island spends today.

Costs

Operating Costs

RIPTA's FY 2020 operating budget is $129.1 million. With the implementation of all plan improvements, total operating costs, in $2020, will increase over time to $2778 to $286 million in 2040, depending upon choices made between light rail and BRT (with the higher cost for LRT) (see Table 2).[2]

Table 2 | Operating Costs

	2040	AVERAGE ANNUAL
Transit Services		
Light Rail	$0-$22m	$0-$4m
BRT	$11-25m	$1-5m
Rapid Bus	$45m	$27m
Regional Rapid Bus	$28m	$14m
Commuter Rail	$13m	$7m
Local Routes	$105m	$109m
Flex Services	$4m	$4m
Paratransit	$14m	$14m
Other	$41m	$37m
Total	**$278m-$286m**	**$217m**

For funding purposes, average annual costs would be $217 million. This would represent the average annual revenue that would need to be generated to fund service over the 20 year period. Note also that although the average annual cost is significantly less than the 2040 operating costs, reductions in capital spending once light rail and/or BRT have been completed will more than cover the difference.

Capital Costs

Total capital costs will range from $2.1 to $3.2 billion. As with operating costs, the difference will be driven by choices made between light rail and BRT, with the higher cost for LRT (see Table 3).

Existing Funding Sources

Operating Revenue

For operations, the most important sources of funds include:

- Federal Transit Administration (FTA) formula funds
- Gasoline tax revenue
- Fares
- Paratransit revenue
- Special project revenue
- State Highway Maintenance Account revenue

As shown in Figure 1, gasoline tax revenues are the largest source of funding for RIPTA operations and provide over $44 million per year. FTA funding is the second largest source at nearly $33 million per year. The largest amount of FTA funding is from FTA Section 5307. Fares comprise the third largest source of funding.

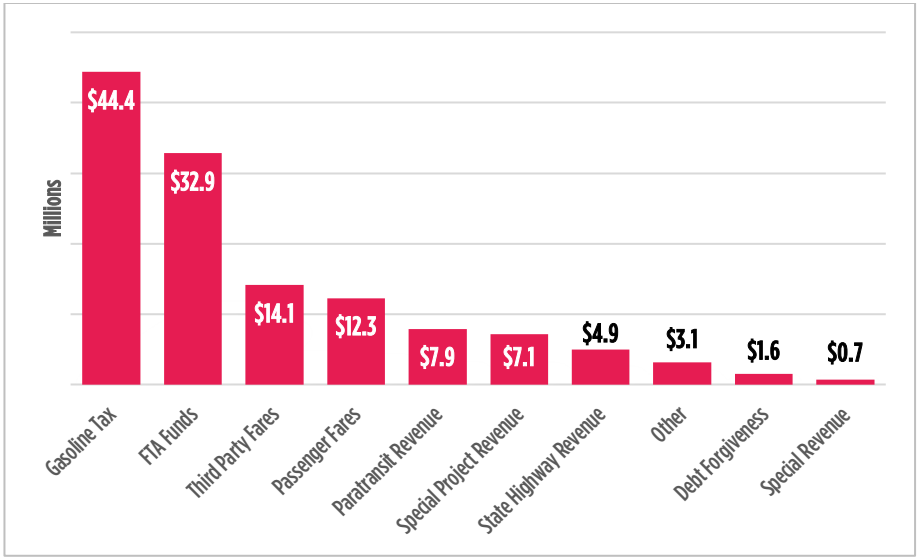
[2] The operating and capital costs do not include any increases for faster and more frequent commuter rail service between Boston and Providence, as RIDOT is assuming that the MBTA and the Commonwealth of Massachusetts will fund all of those costs. The costs do, however, include the additional commuter rail service within Rhode Island between Providence and TF Green Airport.

Table 3 | Capital Costs

	TOTAL	AVERAGE ANNUAL
Transit Services		
Light Rail	$0-$1.7b	$0-$84m
BRT	$338m-$901m	$17m-$45m
Rapid Bus	$112m	$6m
Regional Rapid Bus	$155m	$8m
Local Routes	$80m	$4m
Flex Services	$9m	<$1m
Paratransit	$1m	<$1m
Replacement Vehicles	$248m	$12
Service Partnerships	$4m	<$1m
Total	$1.5b	$76m-$131m
Infrastructure/Facilities		
Transit Priority	$47m	$2m
Bus Stop Improvements	$16m	$1m
Mobility Hubs	$97m	$5m
Park and Ride Lots	$11m	$1m
Maintenance Facility	$49m	$2m
RIPTA Miscellaneous	$100m	$5m
FRIP Track Electrification	$141m	$7m
New Amtrak Station at TF Green	$111m	$6m
Subtotal	$571m	$29m
Total	**$2.1b-$3.2b**	**$104m-$160m**

Some of these funds are related to the amount of service that RIPTA provides, while others are not. Gas tax revenues are based on the number of gallons of fuel that are sold, and current projections indicate relatively flat gas sales for the foreseeable future. The state does index the gas tax rate to inflation, but all increases go to RIDOT. Fare revenues will increase as ridership increases. FTA funding will also increase relative to increases in service, but at a lower rate than service increases since many of the FTA formulas are based on population and population density, which will increase only slowly.

Figure 1 | Sources of Operating Funds (FY 2020)



Capital Funding

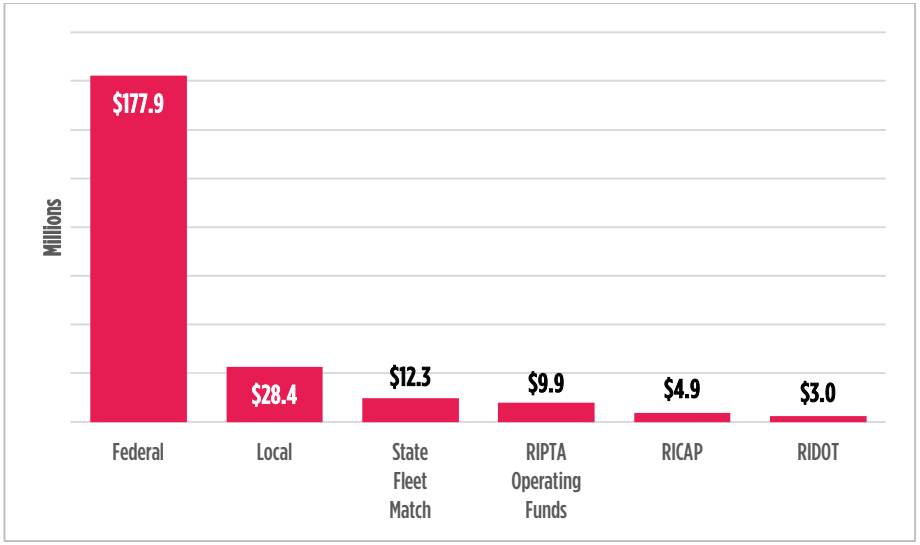
RIPTA's FY 2018 – 2027 capital program projects total spending of $224.1 million, approximately 78% of which will be paid for with FTA funds. Most of the remainder will be paid for with a variety of local funds, State Fleet Match funds, RIPTA operating funds, and Rhode Island Capital Plan Fund (RICAP) funds (see Figure 2).

As described in more detail in the following sections, most of the federal funds that RIPTA now receives are FTA formula funds. As with operating funding, formula funding amounts will increase as RIPTA increases service, but at a lower rate.

Funds Available for Transit Forward RI Improvements

A significant amount of funding from existing sources will be available to fund Transit Forward RI improvements. These include a variety of federal and state funds.

Figure 2 | Sources of Capital Funding (FY 2018-2027)



FTA Formula Funds

FTA formula funds, as the name implies, are allocated on a formula basis, with the formulas generally based on system size, population, and population density. The most important sources for Rhode Island are:

- Urbanized Areas Formula Grants Program (Section 5307)
- Enhanced Mobility for Seniors & Individuals with Disabilities (Section 5310)
- Formula Grants for Rural Areas (Section 5311)
- Bus-Bus Facility Formula (Section 5339(a))

These funds would partially fund service expansion, but at a lower percentage than for existing services (since some formula elements, such as population density, do not change).

Urbanized Areas Formula Grants Program (Section 5307)

Section 5307 provides funding to public transit systems in Urbanized Areas (UZAs) for public transportation capital, paratransit operations, preventative maintenance, and some other uses. Funding is allocated through a formula based on fixed guideway vehicle revenue miles, fixed guideway passenger miles, bus vehicle revenue miles, bus passenger miles, population, and population density. This is Rhode Island's primary source of capital funds, and in FY 2019, RIPTA received $30.1 million in Section 5307 funds. Increased levels of service along fixed guideway segments would lead to increased funding from this program. Since Rhode Island's population is projected to remain relative stable, this preliminary funding plan assumes that increases in these funds would increase at 50% of the rate of service increases.

Enhanced Mobility for Seniors & Individuals with Disabilities (Section 5310)

Section 5310 provides funding to states for the purpose of meeting transportation needs of the elderly and persons with disabilities. Funds are distributed based on the number of older adults and persons with disabilities. RIPTA uses these funds for the purchase and replacement of Ride vehicles. In FY 2019, RIPTA received $1.0 million in Section 5310 funds. These funds are allocated on the basis of population and this plan assumes stable funding.

Formula Grants for Rural Areas (Section 5311)

Section 5311 provides capital, planning, and operating assistance to support public transportation in rural areas with populations less than 50,000. RIPTA uses these funds to support the service it operates in rural areas, including service that connects to urban areas. In FY 2019, RIPTA received $0.7 million in Section 5311 funds. These funds are also allocated on the basis of population and this plan assumes stable funding.

State of Good Repair Formula Grants (Section 5337)

Section 5337 provides funding to states through a formula for projects that maintain, rehabilitate, and replace fixed guideway and high-intensity bus system, as well as to implement transit asset management plans. In FY 2019, Rhode Island received $5.6 million in Section 5337 funds. These funds are allocated using the same formula as Section 5307 and this assumes that increases in these funds would increase at 50% of the rate of service increases.

Bus-Bus Facility Formula (Section 5339(a))

Section 5339(a) provides funding to states and transit agencies to replace, rehabilitate and purchase buses and related equipment and

to construct bus-related facilities. In FY 2019, RIPTA received $4.9 million in Section 5339(a) funds. These funds are also allocated using the same formula as Section 5307 and this assumes that increases in these funds would increase at 50% of the rate of service increases.

FTA Discretionary Funds

FTA discretionary programs provide funding through a competitive process to support major improvements that would not be achievable through formula allocations.

Bus and Bus Facilities Program (Section 5339)

The Section 5339 Bus and Bus Facilities program, which is a compliment to the Section 5339(a) formula program described above, provides funding through a competitive process to replace, rehabilitate, and purchase buses and related equipment and to construct bus-related facilities. This program is designed to provide funding for major improvements to bus transit systems that would not be achievable through formula allocations. Since FY2016, RIPTA has received three Section 5339 grants that provided 80% of funding for the new Pawtucket Bus Hub and Transit Emphasis Corridor, improvements to the East Side Bus Tunnel, and modernization of the Chafee Maintenance Facility in Providence. This plan assumes that Section 5339 would cover 80% of the costs for Regional Mobility Hubs and a new maintenance facility.

Capital Investment Grants/New Starts (Section 5309)

Section 5309 is the major source of federal funding for new "fixed-guideway" rail and BRT projects, with fixed-guideway defined as rail, a separate right-of-way for the use of public transportation, or high occupancy vehicles or a catenary and right-of-way usable by other forms of transportation. There are two types of programs, neither of which has been used in Rhode Island to date:

1. New Starts, which are projects with total capital costs of more than $300 million or more than $100 million in requested New Starts funding.
2. Small Starts, which are projects with total capital costs less than $300 million and less than $100 million in requested New Starts funding.

By statute, New Starts can fund up to 80% of project costs. However, in practice, 50% has become a typical federal share. This plan assumes 50% that Section 5309 would fund 50% of BRT, Rapid Bus, Regional BRT, and Transit Emphasis Corridor projects.

Federal Highway Administration (FHWA) Funds

Congestion Management Air Quality (CMAQ)

The CMAQ program provides funding for transportation projects and programs to help meet the requirements of the Clean Air Act. Funding is available to reduce congestion and improve air quality for areas that do not meet the National Ambient Air Quality Standards for ozone, carbon monoxide, or particulate matter (nonattainment areas) and for former nonattainment areas that are now in compliance (maintenance areas). Although the program is administered by FHWA, transit projects are eligible for funding. In FY 2019, RIDOT directed $3.8 million in CMAQ funding to RIPTA for transit but in most years has provided less. This plan assumes $3 million per year in CMAQ funding.

Federal Aviation Administration (FAA) Funds

Passenger Facility Charge (PFC) Program

The FAA's Passenger Facility Charge (PFC) Program enables airports to charge a fee of up to $4.50 per emplaning passenger to fund projects that enhance safety, security, or capacity; reduce noise; or increase air carrier competition. Eligible projects include airport access projects that meet the following conditions:

1. The road or facility may only extend to the nearest public highway or facility of sufficient capacity to accommodate airport traffic
2. The access road or facility must be located on the airport or within a right-of-way acquired by the public agency; and
3. The access road or facility must exclusively serve airport traffic.

PFCs have been used to fund many rail services to airports, including San Francisco International, MSP International Airport (Minneapolis-Saint Paul), Portland International Airport, Newark International Airport, and John F Kennedy International Airport (New York). In Rhode Island, PFCs could be used provide funding to connect High Capacity Transit services into the airport.

TF Green Airport already charges the allowable maximum of $4.50 per passenger, and thus the fee cannot be raised to generate new revenue. In 2019, the fee generated $7.5 million.

State Sources

State and local funds generate a significant share of funding for most transit systems. In general, transit systems that receive large amounts of state funds receive few local funds, and vice-versa. Rhode Island is a state where there is a significant amount of state funding and very little local funding.

For operations, the state gas tax and State Highway Maintenance Account are the two most important state sources. For capital improvements, truck-only tolls established through the RhodeWorks legislative initiative and Mass Transit Hub Infrastructure General Obligation (GO) Bonds will make an additional $115 million available for transit improvements.

Gas Tax

RIPTA's primary source of operating funds is a share of the state gas tax, which is currently 35¢ per gallon (including a 1¢ environmental surcharge) and adjusted every two years based on inflation. However, all of the increases accrue to RIDOT, and RIPTA's share will remain fixed.

In total, 9.75¢ is apportioned to RIPTA – 9.25¢ directly and 0.5¢ indirectly though the Department of Environmental Management (DEM). Gas tax revenue represents RIPTA's single largest source of revenue, and for FY2019 was budgeted at $43.9 million. Due to improved fuel economy, a shift toward electrification of vehicles, and other factors, gas tax revenues are not increasing. Between 2011 and 2018, revenues have ranged from a low of $40.7 million in 2014 to a high of $44.1 million in 2016, with variances between years largely explained by some out-of-state fleet quarterly payments accruing to the next fiscal year. This plan assumes that gas tax revenues will remain flat at an average annual level of $43.9 million.

RhodeWorks

RhodeWorks is a 10-year program designed to rebuild Rhode Island's transportation infrastructure, funded through tolls on large commercial trucks. Over the 10-year life of the program, $80 million will be allocated to transit improvements and another $37 million for transportation alternatives such as pedestrian, bicycle, and ADA-related improvements. This plan assumes use of the $80 million for transit improvements but not any use of the $37 million.

State Highway Maintenance Account

Rhode Island's State Highway Maintenance Account is funded through license and registration fees, along with a percent of inspection fees, costs for certain transfers and duplicates, and other miscellaneous transportation-related revenues as specified in statute. Five percent of these funds are allocated to RIPTA to fund operations, and in FY 2019, RIPTA was budgeted to receive $4.9 million. In addition, for FY 2018 and 2019, the General Assembly directed an additional $5.0 million to RIPTA to offset a reduction in revenue from the reinstatement of free rides for elderly and disabled riders and to fund debt service on outstanding General Obligation bonds. Based on recent estimates, this plan assumes that RIPTA will receive $10.1 million per year in State Highway Maintenance Account funding.

Rhode Island Capital Plan Fund (RICAP)

The Rhode Island Capital Plan fund (RICAP) funds capital expenditures for asset protection. The state is limited to spending 95% of revenues generated annually, with the remainder placed into a "Rainy Day Fund" equal to 5% of one year's revenues. However, any revenues not needed to replenish the rainy day fund are deposited to RICAP.

RICAP Funds are appropriated for specific projects by the General Assembly. RIPTA has annually requested $220,000 to support the facility and environmental capital program, but frequently receives less (for example, $90,000 in FY 2018). These funds are used to cover the FTA's 1% security enhancement requirement, with the remaining funds used to cover the match for various facility improvements. However, based on the Governor's recommendations for FY 2020 to 2025, this plan estimates that RIPTA will receive $1.3 million per year in RICAP funds.

Rhode Island Mass Transit Hub Infrastructure Bonds

Question 6, which was approved by Rhode Island voters in 2014, authorized the issuance of $35 million in General Obligation bonds for "enhancements and renovations to mass transit hub infrastructure throughout the State of Rhode Island to improve

access to multiple intermodal sites, key transportation, healthcare, and other locations." This plan assumes that these funds will be available for the development of regional and community mobility hubs.

Transportation and Climate Initiative (TCI) Funds

Eleven northeast and mid-Atlantic states, along with the District of Columbia, have formed the Transportation Climate Initiative (TCI) to develop a regional approach to mitigate transportation emissions. This program, which is still being developed, will be a cap and trade system to reduce carbon emissions. Cap and trade programs work by setting a limit on carbon emissions and then auctioning of the rights to those emissions to the highest bidders. The proceeds would then be used to fund programs that would reduce emissions, including transit.

On December 22, 2020, four states, including Rhode Island, announced that they would be the first to launch the initiative. As part of the launch, Governor Raimondo announced that the program will provide $20 million annually for public transit, safe streets for bikers and pedestrians, and other green projects.

Details on how TCI will be implemented and rolled out will still require additional planning and will also require state legislation, which will take time. For the purposes of Transit Forward RI, the plan assumes that revenues would start flowing in 2026, or in five years, and that half of the announced $20 million, or $10 million per year, will be available for transit.

Fare Revenue

Passenger fares are a local revenue source used to offset transit operating costs. RIPTA received about 20% of its FY19 revenue, or $25 million, from passenger fares. Fare revenues from commuter rail go directly to the MBTA, and fare revenues from ferry operations also go directly to the operator; however, both help offset the cost of transit services in Rhode Island.

Total Available Revenue and Funding Gap

Based on the sources described above, and other miscellaneous sources, existing and available revenue sources can provide an average (over 20 years) of approximately $163 million per year for operating expenses and $74 to $102 million per year in capital revenues (with the higher number for light rail development (see Table 4).

Table 4 | Average Annual Costs, Revenue, and Funding Gap

	WITHOUT LRT	WITH LRT
Average Annual Costs		
Operating	$217m	$217m
Capital	$104m	$160m
Total	$321m	$377m
Projected Available Revenues		
Operating	$163m	$163m
Capital	$74m	$102m
Total	$237m	$265m
Funding Gap		
Operating	$54m	$54m
Capital	$30m	$59m
Total	**$84m**	**$112m**

Compared to projected costs, this will leave an annual funding gap of $84 million per year without the development of light rail and $112 million per year with light rail. These amounts represent the amount of new funding that will be needed.

5. Potential New Funding Sources

Potential New Funding Sources

Throughout the United States, and as indicated in Chapter 3, transit is funded at the state and local level in many different ways. Funding approaches include:

Major Sources

- Property taxes
- Tolls
- Income tax
- Sales tax

Secondary Sources

- Fuel tax
- Local assessments
- Special Assessment Districts
- Rideshare tax
- Vehicle registration tax
- Real estate transfer tax
- Rental car tax
- Lodging tax
- Alcohol taxes
- Cigarette tax
- Transportation utility fee

Other Potential Approaches

- Cannabis tax
- Vehicle Miles of Travel charges

Individually, and at the common rates indicated in Table 5, these sources could each generate up to $85 million per year. With different rates, amounts would be proportionally higher or lower. Only four sources –property taxes, income taxes, tolls, and sales taxes – could, by themselves, provide all of the necessary funds. Many other sources could provide supplemental revenue, while others would provide only minor amounts. Two other sources – Transportation and Climate Initiative funds and Vehicle Miles Traveled (VMT) charges – could provide future funding but are not yet at the point where they could be implemented soon.

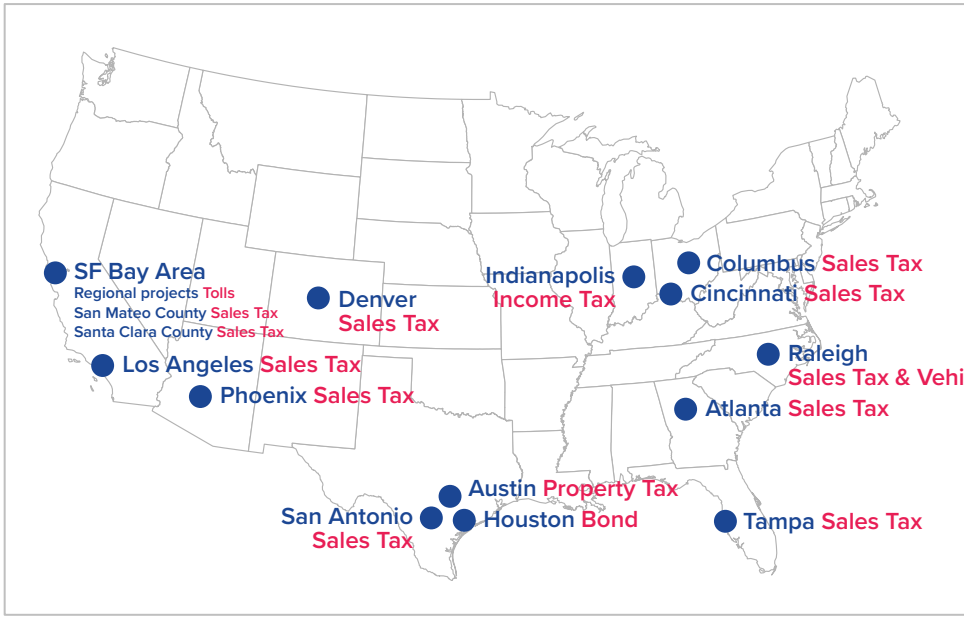
Table 5 | Potential Revenue Rates and Annual Amounts

SOURCE	COMMON RATE	ANNUAL REVENUE
Major Sources		
Property tax	75¢ per $1,000	$93 m
Income tax	Add'l 0.25%	$82 m
Tolls	25¢	$79 m
Sales tax	0.5%	$85 m
Other Sources		
Fuel tax	5¢ per gallon	$21 m
Local assessments	5% of operating costs	$11 m
Special Assessment Districts	50% of light rail and BRT costs	$23-$50 m
Rideshare tax	$1 per trip	$11 m
Vehicle registration fee	$20 bi-annually	$14 m
Real estate transfer tax	Mass rate (0.456%)	$2 m
Rental car tax	1%	<$1 m
Lodging tax	1%	$4 m
Alcohol excise tax	+10%	<$1 m
Alcohol sales tax	1%	$4 m
Cigarette tax	25¢ per pack	$3 m
Transportation utility fee	$2 per month	$10 m
Other Potential Approaches		
Cannabis tax	20%	$15-$21 m
Vehicle Miles Traveled (VMT) charges	1¢ per mile	$80 m

Major Sources

Nearly all major transit initiatives are funded through either sales taxes, property taxes, or income taxes. A few are also funded with tolls (see Figure 3). Transit Forward RI will also almost certainly need to use one of these approaches.

Figure 3 | Major Transit Initiatives and Primary Funding Sources



Property Tax

A number of transit systems use property taxes as their major source of funding. One recent example includes the Seattle area where voters recently approved a 25¢ per $1,000 of assessed value increase in property taxes to fund the Sound Transit 3 expansion program. An even more recent example is Austin, TX, where voters just passed an 8.75¢ per $100 of assessed value increase to fund a program very similar to Transit Forward RI. In Rhode Island, each 25¢ increase per $1,000 in assessed value (on residential real estate, commercial real estate, and personal property) would generate $30.8 million per year.

Income Tax

Indianapolis is funding its $1.2 billion Indy Connect transit program through a 0.25% income tax increase. In 2018, the State of Oregon implemented an income tax of 0.1% to fund general transit improvements. The Oregon tax must be paid by all working residents of Oregon, no matter where they work, and by all non-residents who work in Oregon.

In Rhode Island, income tax rates are 3.75%, 4.75%, or 5.99% based on income. Massachusetts has a flat rate of 5%. Connecticut has variable rates that range from 3% to 6.99%. Connecticut's 3% rate applies to very low-income residents (under $10,000 per year for those filing singly and $20,000 for couples filing jointly). The next lowest rate is 5% and at most income levels, rates are higher than in Rhode Island. On average, Massachusetts and Connecticut residents pay significantly higher income taxes. In 2019, per capita income taxes were $1,169 in Rhode Island, $2,115 in Massachusetts, and $2,106 in Connecticut. A 0.25% increase in Rhode Island's three income tax rates would generate $82.2 million per year.

Revenue for Rhode Island, an advocacy group, has put forward a proposal sponsored by Senate Finance Committee Chairman Bill Conley to raise the tax rate for the top 1% (gross income of $475,000 per year) of residents to 8.99%. The group estimates this would generate $128 million in new revenues.

Tolls

Toll revenues are used to fund transit in Northern Virginia, San Francisco, CA, and New York City. In the northeast, Rhode Island, Connecticut, and Vermont do charge any tolls to passenger vehicles, while Massachusetts, New Hampshire, and Maine do. However, Rhode Island, through its Rhode Works program, has begun charging tolls on large commercial vehicles. Through this program, the infrastructure that would be needed to expand tolls to all vehicles is already in place.

The RhodeWorks program imposes tolls at 12 locations on I-95, I-295, Route 6, and Route 146. A 25¢ toll on all passenger automobiles at these locations would generate an additional $79.4 million per year. Finally, it should be noted that the RhodeWorks legislation prohibits assessing tolls on cars and small trucks. As a result, new legislation would be needed to expand tolling to all vehicles.

Sales Tax

Sales taxes are the most important source of funding at many transit systems. An example list of transit systems funded by sales taxes along with the tax rates is shown in Table 6.

Sales taxes are also the most common way to fund major expansion programs, and examples include:

- Denver
- Maricopa County, AZ (Phoenix area)
- City of Phoenix
- Los Angeles, CA
- Puget Sound, WA (Seattle area)
- Broward County, FL (Ft. Lauderdale area)

Historically, sales taxes for transit have been well-supported by voters, and some sources cite that approximately 70% of transit funding initiatives pass, and in 2020, over 90% have passed.

Table 6 | Use of Sales Taxes for Operations

CITY/TRANSIT SYSTEM	SALES TAX RATE
Boston/MBTA	1.0%
Denver/RTD	1.0%
Los Angeles/LA Metro	2.0%
San Diego/MTS	0.5%
Phoenix/Valley Metro	0.7%
Salt Lake City/UTA	1.2%
Seattle/King County Metro	1.4%
Dallas/DART	1.0%
Fort Worth/Trinity Metro	0.5%
San Antonio/VIA	0.5%-1.0% depending upon jurisdiction

For 2020, Rhode Island projects to generate $1.2 billion in sales tax revenue. A common sales tax rate for transit is 0.5%, and in Rhode Island, this rate would generate approximately $85 million per year. However, a challenge to raising Rhode Island's current sales tax of 7% is that it is already higher than those in Massachusetts (6.25%) and Connecticut (6.35%).

Sales tax revenue could also be increased by broadening the number of taxable services beyond the current number of 37 services. Rhode Island ranks 32nd nationally in terms of the number of services subject to sales tax. In 2012, a small number of services, including pet grooming, were added to the list of taxable services, but the list of those that remain untaxed is extensive. At least 20 states tax services which are currently exempt under Rhode Island law. These include, for example, cigarettes, tuxedo rentals, carpet and upholstery cleaning, diaper services, laundry and dry-cleaning services, shoe repair, clothing repair and alteration services, swimming pool cleaning and maintenance, health clubs and tanning parlors, memberships in private clubs, automotive painting, and rust-proofing and undercoating.

Secondary Sources

Many other funding sources are also used, which include:

- Fuel tax
- Local assessments
- Special Assessment Districts
- Rideshare tax
- Vehicle registration fee
- Real estate transfer tax
- Rental car tax
- Lodging tax
- Alcohol excise tax
- Alcohol sales tax
- Cigarette sales tax
- Transportation Utility Fee

However, all of these would produce far less revenue than the four major sources, and some would only produce minor amounts. No could be a primary source of funding for Transit Forward RI. However, they could be used as supplemental sources.

Fuel Tax

RIPTA's primary source of operating funds is a share of the state gas tax, which is currently 34¢ per gallon (including a 1¢ environmental surcharge) and adjusted every two years based on inflation. Of this, 9.75¢ is apportioned to RIPTA – 9.25¢ directly and 0.5¢ indirectly though the Department of Environmental Management (DEM). Due

to improved fuel economy, a shift toward electrification of vehicles, and other factors, gas tax revenues are not increasing. Between 2011 and 2018, revenues have ranged from a low of $40.7 million in 2014 to a high of $44.1 million in 2016, with variances between years largely explained by some out-of-state fleet quarterly payments accruing to the next fiscal year.

Each one cent increase in Rhode Island's gas tax would generate approximately $4.2 million in new revenue per year. A five cent increase would generate $21.3 million per year. At present, Rhode Island's gas tax is higher than in Massachusetts (24¢ with proposals to increase it to 29¢) but lower than in Connecticut ($35.8¢).

Local Assessments (General Fund)

Some transit districts assess local communities in return for service each year. In Massachusetts, communities served by the MBTA are assessed based on a state-mandated formula that considers local population, access to other transit authorities, and proximity to Boston. The amount each community pays does not correlate to the level of service received. In 2018, MBTA assessments represented about 8% of its operating costs.

Local transit districts in Connecticut rely more heavily on municipal contributions. The method for assessing these contributions vary by district.

RIPTA current has the authority to levy local assessments but never has. A 5% local assessment would generate an average of approximately $11 million per year.

Special Assessment Districts

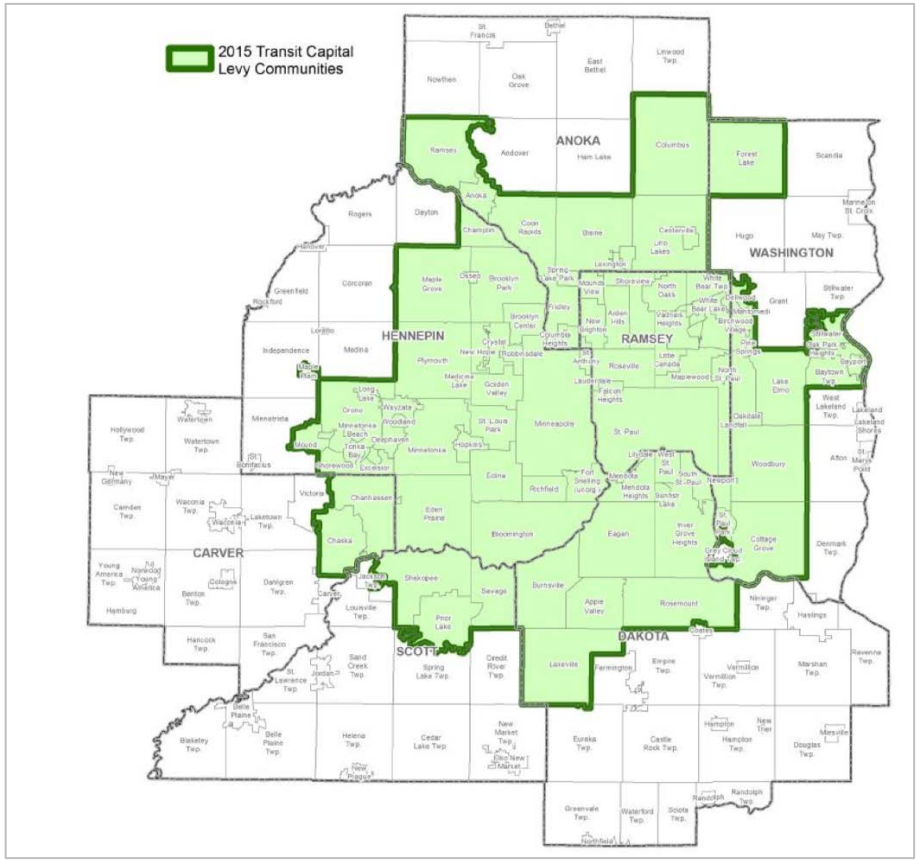
One common way to fund major projects is to develop special assessment districts in the area that is served by and benefits from the transit improvement. The taxes are typically based on property value, or sales, special business fees, or other measures of value. Examples include:

- Kansas City, MO: Kansas City has developed Transportation Development Districts (TDDs) to fund construction and operation of its streetcar line. The TDD consists of an area of approximately ½ mile to each side of the line. The first TDD was approved by voters within the proposed district and funded development of current streetcar line. In 2017, voters approved the creation of a second district to extend the line 3.8 miles southward. The TTDs impose a variety of taxes and fees:
  - 1% sales tax within the TDD boundary
  - A special assessment (property taxes) on real estate within the TDD boundary, with maximum rates as follows:
    - 48¢ for each $100 of assessed value for commercial property
    - 70¢ for each $100 of assessed value for residential property
    - $1.04 for each $100 of assessed value for property owned by the City
    - 40¢ for each $100 of assessed value for real property exempt from property tax, such as religious, educational, charitable, etc. property, but only on market value more than $300,000 and less than $50 million.
  - An assessment on surface pay parking lots within the TDD boundary (not garages and not free parking lots). The maximum rate for the supplemental special assessment on surface pay parking lots is $54.75 per space per year.
- Northern Virginia: In northern Virginia, two counties created Special Assessment Districts to fund the extension of rapid transit service from Washington, D.C. to Dulles International Airport:
  - Fairfax County established a special tax district on commercial and industrial properties in 2004 to fund the county's portion of Phase 1 of the extension. The district consists of most of the Tysons Corner Urban Center and an area around the Phase 1 stations and assesses a property tax of 22¢ per $100 of assessed value. In 2009, the county established a second special tax district consisting of the area around its Phase 2 stations. In that district, the property tax rate started at 5¢ per $100 and increased five cents each year to 20¢ in FY 2014.
  - Loudoun County implemented a "Metrorail Service District" to pay for its portion of Phase 2 of the project. That district consists of properties around the Phase 2

stations in Loudoun County with a levy of 20¢ per $100 of value.

- Minneapolis, MN: Via state legislative action, a number of communities have been designated as a Regional Taxing District with a property tax levy for transit capital purposes (see Figure 4). The area is a subset of a seven county area that can expand based on service agreements. The funds are used for debt service on bonds issued by the Metropolitan Council, with the bonds used primarily for transit fleet maintenance and replacement, and some facilities.

Figure 4 | Minneapolis Area Regional Taxing District



- Columbus, OH: In 2018, a downtown assessment district in Columbus provides free transit passes for downtown workers. An estimated 14,800 out of 30,000 eligible workers in the district have registered for the pass and made about 25,000 weekly trips during the first year of the program. Bus ridership during rush hour increased by about 24%. Funding is matched by the local planning commission.

As indicated, there are many different types of Special Assessment Districts, and the amounts generated depend on the approaches used. It is possible that Special Assessment Districts could fund the non-federal portion of light rail and/or BRT projects, or an average or $23 to $50 million per year.

As described in Chapter 6, there are a large number of sources to fund transit programs such as Transit Forward RI. Ultimately, the best approach will be the funding package that will produce the required amount of revenue and achieve the highest levels of public and political support.

There are two approaches to funding major transit initiatives. The first and most common is to enact a single tax that is set high enough to fund the entire program. The second is to enact a primary source supplemented by one or more additional sources. This approach is much less common.

Rideshare Tax

Cities and states are beginning to impose taxes on rideshare trips (Uber and Lyft), in part because increases in ridesharing are increasing financial strains on transit systems. Three locations that currently do so are Massachusetts, Seattle, WA, and Chicago, IL. Only limited information on rideshare use is available, but assuming that Rhode Island residents, on average, make 10 rideshare trips per year, a $1 fee on rideshare trips would generate $10.6 million per year.

Vehicle Registration Fee

Different forms of vehicle taxes are occasionally used to fund transit. These include sales taxes on vehicles, excise taxes, registration fees, and annual fees.

Rhode Island's base vehicle registration fees are charged biennially and vary based on the weight of the vehicle being registered, but with most charged $40. In addition, there is a biennial registration fee surcharge of $30 and a biennial technology fee of $2.50 that is assessed at the time of registration These fees bring the typical

vehicle registration fee in Rhode Island to $72.50 on a biennial basis. This is between the comparable fees of $60 in Massachusetts and $80 in Connecticut. An increase in bi-annual fees of $10 generate $6.9 million per year and an increase of $20 would generate $13.8 million per year.

Real Estate Transfer Fee

Real estate transaction fees are used to fund transit in Virginia and Florida. Virginia's fee ranges from $21 to $54. Florida charges a real estate documentary tax of $0.70 per $100 of the transaction value, 10% of which is used to match federal transit funding.

Rhode Island's real estate transfer fee is now $2.30 per $500 of value, or 0.46%. Massachusetts' fee is 0.456% and Connecticut's range from 1.0% to 1.75%. A 50¢ increase in Rhode Island's rate from $2.30 to $2.80 per $500 of value, or from 0.46% to 0.56%, would generate only $3.0 million in 2020 and would increase at the same rate as real estate values.

Rental Car Taxes

Rental car taxes are implemented in various ways, for example, as a sales tax or on a per rental basis. For example, Allegheny County, PA, which is where Pittsburgh is located, imposes a $2 tax on vehicle rentals to fund Port Authority services.

Rhode Island currently applies its sales tax to rental car and adds an 8% surcharge, most of which is returned to rental car companies to offset the use taxes. Rhode Island also assesses a $3.75 per day Customer Facility Charge on vehicles rented at T.F. Green Airport that are used to pay for the parking garage that houses the rental car fleets.

A 1% increase in the rental car surcharge would generate only $0.5 million per year.

Lodging Taxes

The 2016 Let's Move Nashville campaign would have imposed a tax on hotels and motels that would have started at 1.4% of the room rate and over time increase to 3.75%. Lodging taxes are typically easily accepted by residents because it is largely visitors who pay them.

Rhode Island's current taxes on lodging total 13% for room rentals and 8% for entire dwellings such as homes and condominiums. These rates are lower than in Connecticut and generally lower than those in Massachusetts (which vary by community). Increasing the taxes by an additional 1% would generate $4.2 million per year.

Alcohol Taxes

Every state in the United States taxes alcohol and these revenues can be used for any purpose. The only significant example of alcohol taxes being used for transit is a 10% tax on poured drinks in bars in Allegheny County, Pennsylvania (which is where Pittsburgh is located).

The two most common ways to tax alcohol are excise taxes charged to producers, distributers, and manufacturers and sales taxes charged to consumers. Rhode Island currently does both, with the sales tax recently restored after a temporary suspension.

Rhode Island's predominant excise taxes are 10¢ per gallon for beer, $1.40 for wine, and $5.40 for hard liquor. The rates for beer are among the highest in the country (8th and 11th respectively), but its tax on wine is low (42nd highest). A 10% increase in the excise tax on wine would generate $400,000 per year. An across the board increase of 10% on all alcohol would generate $1.5 million per year. The sales tax charged to consumers generates significantly more than the excise tax, and a 1% increase to 8% would generate $3.6 million per year.

Cigarette Taxes

Similar to alcohol, every state in the United States taxes cigarettes and these revenues can be used for any purpose. However, there are currently no significant examples of cigarette taxes being used to fund transit.

Rhode Island currently taxes cigarettes at $4.25 per package. This is the fourth highest rate in the country and only 25¢ below the highest, which is charged in Washington, D.C. A 25¢ increase to match Washington D.C.'s rate would generate $3.4 million per year based on 2019 sales but would decline over time as cigarette sales continue to decline.

Counties and cities in nine states also tax cigarettes. For the jurisdictions that charge local taxes, the taxes are frequently $2 to $3

dollars per pack on top of state taxes. When these are considered, state and local taxes are as high as $7.16 a pack (in Chicago).

Transportation Utility Fees

Some states consider transportation to be a utility and apply a transportation utility fee to utility bills. Vancouver, BC levies a $1.90 month fee on water bills. A $2 monthly fee in Rhode Island would generate $10 million per year.

Other Potential Approaches

There are two other potential approaches that would be much more speculative and would require a number of prerequisite actions before they could be seriously considered. These could provide the potential for future revenue but the prerequisite actions are not yet well enough advanced to expect that they could be implemented soon:

- A cannabis tax
- Vehicle Miles of Travel charges

Cannabis Tax

The sale and use of cannabis for recreational purposes is currently illegal in Rhode Island. However, trends in New England and the United States are towards legalization. If Rhode Island decides to legalize Cannabis, experience from other states indicates that sales would be $70 to $100 per capita. If Rhode Island matched the Massachusetts tax rate of up to 20% and dedicated the revenue to transit, a cannabis tax could generate $15 to $21 million per year.

Vehicle Miles of Travel (VMT) Charges

VMT charges have long been discussed but have not yet been enacted in the United States. However, if this fee becomes acceptable, a 1¢ per mile fee would generate $80 million per year.

6. Transit Forward RI Funding Strategy

Transit Forward RI Funding Strategy

As described in Chapter 4, full implementation of Transit Forward RI will require an average of $112 million in additional revenues per year with light rail and $84 million per year without. As described in Chapter 5, most other major transit initiatives like Transit Forward RI are funded through sales taxes, property taxes, income taxes, or tolls. Most other programs also use a single source and each of those could provide the necessary funding for Transit Forward RI.

Primary Options

Property Tax

Full Funding of Transit Forward RI through a property tax increase would require a 0.68% increase in property taxes without light rail and 0.91% with light rail. The 0.68% increase would be slightly lower than the 0.75% increase that Austin voters just approved.

There does appear to be room to increase property taxes. Rhode Island's property taxes, on a per capita basis, are the second lowest in New England, and lower than in Massachusetts and Connecticut. With an increase of either 0.69% or 0.94%, Rhode Island's average rate would remain below those in both Massachusetts and Connecticut.

Income Tax

Full funding of Transit Forward RI through an income tax increase would require an increase of 0.26% without light rail and 0.34% with light rail. Both of these increases would be slightly higher than the 0.25% increase that Indianapolis voters approved to fund Indy Connect.

Rhode Island currently has three income tax brackets, which are:

- 3.75% for incomes below $64,050 per year
- 4.75% for incomes between $64,050 and $145,600
- 5.99% for incomes above $145,600

An income tax increase could be applied uniformly to each of the three brackets, which would increase them to 4.04% to 6.25% without light rail and 4.11% to 6.35% with light rail. Alternatively, they could be applied progressively to apply a lower increase to those with lower income and a high increase to those with higher incomes.

Table 7 | Tax Rates Required to Fully Fund Transit Forward RI

SOURCE	REQUIRED RATE
Without Light Rail ($84 million per year)	
Property Tax	0.68% increase
Income Tax	0.26% increase
Pass. Vehicle Tolls (at Rhode Works locations)	27¢
Sales Tax	0.5% increase
With Light Rail ($112 million per year)	
Property Tax	0.91% increase
Income Tax	0.34% increase
Pass. Vehicle Tolls (at Rhode Works locations)	36¢
Sales Tax	0.7% increase

At present, Massachusetts' income tax is a flat 5%. Connecticut's rates range from 3% to 6.99%. Connecticut's 3% rate applies to very low-income residents – under $10,000 per year for those filing singly and $20,000 for couples filing jointly. The next lowest rate is 5% and at most income levels, rates are higher than in Rhode Island. With increases to fund Transit Forward RI, this would remain the case.

Tolls

Full funding of Transit Forward RI through tolls on passenger vehicles and light trucks at Rhode Works locations would require tolls at Rhode Works gantries of 27¢ without light rail and 36¢ with light rail.

At present, Rhode Island does not charge tolls to passenger vehicles and light trucks anywhere in the state. This is also the case in Connecticut, while Massachusetts charges tolls for major bridges and tunnels and the Massachusetts Turnpike. Tolls vary, but on the Massachusetts Turnpike, tolls at each gantry range from 25¢ to $1.

Sales Tax

This is the most the most common way to fund major transit initiatives, with rates that range from 0.25% to 2%. In Rhode Island, fully funding of Transit Forward RI would require a sales tax increase of 0.5% without light rail and 0.7% with light rail. This would bring Rhode Island's total rate to 7.5% or 7.7%. A major challenge with this approach is that it would increase the differential between Rhode Island's sales tax and Massachusetts' tax of 6.25%. Given Rhode Island's small size, this would encourage more residents to shop in Massachusetts.

Choices

All four sources could provide the required revenues at rates comparable to those enacted elsewhere for similar types of projects. Of the four, sales taxes, although the most popular approach elsewhere, could the most difficult. This is because Rhode Island's sales tax is already higher than Massachusetts', and any increase would increase the differential. With property tax and income tax increases, Rhode Island has room to increase rates while keeping them lower or very similar to those in Massachusetts and Connecticut. Tolls could also be enacted at rates that would – on average – be lower than those in Massachusetts. For these reasons, it is recommended that Rhode Island focus on funding Transit Forward RI through property taxes, income taxes, or tolls.

Next Steps

Ultimately, the best approach will be the funding source that will achieve the highest level of public and political support. The next steps that should be taken to determine this and to develop the final funding plan will be to:

1. Vet the three primary options with key policymakers and key stakeholders
2. Conduct polling to determine levels of public support for the three potential sources and acceptable rate levels
3. If necessary, adjust the funding options and/or overall program to reflect the steps 2 and 3
4. Identify implementation steps
5. Begin implementation process

1. Vet with Key Policy Makers and Stakeholders

The first step will be to review each of the three potential major sources with key policymakers and stakeholders to determine which they could best support and key issues such as reasonable and maximum acceptable rates. These meetings should also address whether the new funding source should be put to a public vote or enacted through legislation without a vote. Most transit initiatives are put to a public vote, but this is not always the case and many transportation funding programs are enacted through legislation (for example Rhode Works).

2. Gauge Public Support

The second step will be to assess public support. While all tax increases are controversial, as described throughout this document, there is a strong record of the public supporting tax increases for transit improvements. A typical way to determine what the public will support is through polling – to gauge overall and relative support for each of the three sources, and the level of increases that the public would support.

3. Develop Final Funding Plan

Ideally, there will be strong support from policymakers, stakeholders, and the public for one or more of the potential funding approaches and at necessary levels. However, there could also be other results – for example, support for one or more of the sources but only at levels would be lower than necessary to fund the entire program. In this case, then either a supplemental source will need to be identified and/or the overall program will need to be adjusted to match acceptable revenue levels.

4. Develop Final Funding and Implementation Plan

With or without changes, key decisions will need to be finalized on the funding approach to pursue and at what level. These decisions would culminate in a final funding and implementation plan. This plan would include:

- The recommended funding source(s) and tax/fee levels
- Actions need to implement the new funding source, including legislation, legal, and procedural requirements
- Schedule for implementation and key milestones
- Responsible parties, staffing needs, and consultant support

Finally, it should be noted that one necessary step for any of the three major sources will be state legislation. For a sales tax or income tax increase, legislation would be needed to authorize the increase. For a property tax, legislation would be needed to authorize a statewide property tax and the level. For tolls, legislation would be needed to authorize tolls for passenger vehicles and light trucks. Legislation could also be needed to put any proposal to voters for approval, if that approach is pursued.

Appendix
Additional Detail on Potential New Funding Sources

Major Sources

- Property Tax
- Income Tax
- Tolls
- Sales Tax

Secondary Sources

- Fuel Tax
- Local Assessments
- Special Assessment Districts
- Rideshare Tax
- Vehicle Registration Tax
- Real Estate Transfer Tax
- Rental Car Tax
- Lodging Tax
- Alcohol Taxes
- Cigarette Tax
- Transportation Utility Fee

Other Potential Sources

- Cannabis Tax
- Vehicle Miles Traveled Fee

Major Sources

Property Tax

Description

Virtually all municipal governments assess tax on property, typically based on value. In many jurisdictions a portion of property taxes are dedicated to public transit.

Rhode Island currently taxes real estate, commercial property, personal property, and motor vehicles, but with the motor vehicle excise tax now being phased out.

Property tax rates range widely by city and town, with rates ranging from approximately $6 per $1,000 of assessed value to over $70 (see Table A-8). The weighted average, by type of property, ranges from approximately $20 to $39.

Table A-8 | FY 2020 Property Tax Rates

	Real Estate	Comm-ercial	Personal Property	Motor Vehicles
Weighted Average	$19.87	$26.57	$38.58	$30.15
Lowest	$5.93	$5.93	$6.16	$9.75
Highest	$26.89	$39.67	$73.11	$37.10

For 2020, Rhode Island projects that its communities will generate $1.6 billion in real estate property tax revenue, $560 million in commercial property tax revenue, $192 million in personal property tax revenue, and $144 million in motor vehicle property tax revenue. Local governments retain all property tax revenues they levy. The levies are based on locally determined valuations.

Examples

Smaller municipal transit systems often use general funds for transit, and many of these funds come from property taxes. For larger transit systems, the use of property taxes is usually through the development of Special Assessment Districts (as described below). Much of the reason for this is that property taxes are levied at a local level, rather than at a state or regional level, which makes regional or statewide approaches difficult.

Examples of the use of property taxes for transit include:

- In the Seattle area, voters recently approved a 25¢ per $1,000 of assessed value increase in property taxes to fund the Sound Transit 3 expansion program.
- In Austin, TX, voters just approved (in November 2020) an 8.75¢ per $100 of assessed value increase in property taxes to fund a program similar to Transit Forward RI.

Potential Revenue

In Rhode Island, each 25¢ increase per $1,000 in assessed value (on residential real estate, commercial real estate, and personal property) would generate $32.1 million per year. This would be the equivalent of an increase of $29.18 per capita.

Rates in Massachusetts and Connecticut

Across New England, per capita property taxes are typically higher than the national average, and all six states ranked among the top ten nationally in FY 2017, the most recent year for which the Rhode Island Public Expenditure Council has comparative data. That year, Rhode Island collected $2,406 per capita in property taxes in FY 2017. This was the second lowest rate in the region, but 39% higher than the national average of $1.628 (see Table A-9).

Predictability and Stability

Property tax revenues are very stable.

Table A-9 | Average Property Tax Collections Per Capita

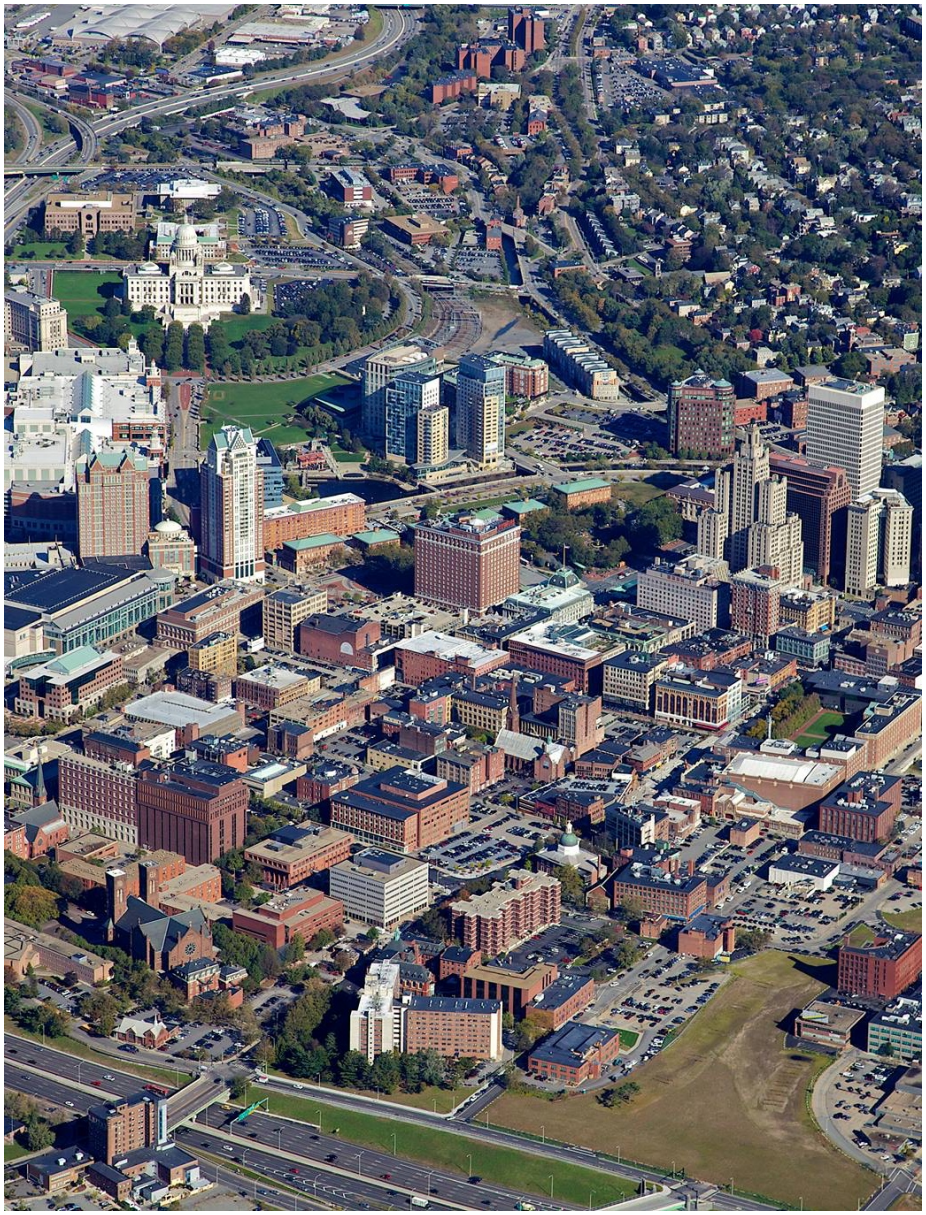
State	Per Capita Property Tax	Rank
US	$1,628	
CT	$3,016	3
ME	$2,144	9
MA	$2,477	6
NH	$3,326	1
RI	$2,406	7
VT	$2,674	5

Equity Considerations

Property ownership tends to increase with income, and lower-income residents tend to qualify for various property tax discounts and exemptions, so this tax tends to be relatively progressive with respect to income. However, even poor people bear a portion of these taxes through rents, and property taxes are burdensome to some lower income homeowners.

Public Acceptance and Likelihood of Success

Although property taxes are widely used to finance public transit, there is frequently resistance to property tax increases in general.



Income Tax

Description

Income taxes are levied on personal income. Rhode Island is one of 43 states that levy individual income taxes, and taxes income using three different tax brackets:

- 3.75% for incomes below $64,050 per year
- 4.75% for incomes between $64,050 and $145,600
- 5.99% for incomes above $145,600

Pre-COVID-19, Rhode Island had projected that it would collect $1.4 billion for FY 2020 in personal sales tax income.

Examples

Three examples of the use of income taxes to fund transit are:

- In 2016, voters in Indianapolis approved a referendum that authorizes the city to impose an income tax of 0.25% – 25¢ per $100 of income – to help fund the Marion County Transit Plan. For a resident earning $50,000 a year, that 0.25% equates to an additional $125 in annual income taxes.
- The City of Cincinnati levies a 2% tax on taxable income to finance general municipal operations and capital improvements, including public transit services.
- The State of Oregon levies an income tax of 0.1% to fund transit. This tax must be paid by all working residents of Oregon and by all non-residents who work within Oregon.

Potential Revenue

A 0.25% increase in Rhode Island's three income tax rates would generate $82.2 million per year.

Revenue for Rhode Island, an advocacy group, has put forward a proposal sponsored by Senate Finance Committee Chairman Bill Conley to raise the tax rate for the top 1% of residents (gross income of $475,000 per year and higher) to 8.99%. The group estimates this would generate $128 million per year in new revenues.

Rates in Massachusetts and Connecticut

Massachusetts has a flat rate of 5%. Connecticut has variable rates that range from 3% to 6.99%. Connecticut's 3% rate applies to very low-income residents (under $10,000 per year for those filing singly and $20,000 for couples filing jointly). The next lowest rate is 5% and at most income levels, rates are higher than in Rhode Island. On average, Massachusetts and Connecticut residents pay significantly higher income taxes. In 2019, per capita income taxes were $1,169 in Rhode Island, $2,115 in Massachusetts, and $2,106 in Connecticut.

Predictability and Stability

Income taxes are subject to economic conditions but overall are relatively predictable and stable and increases over time.

Equity Considerations

Rhode Island's income taxes are progressive, and this could remain the case.

Public Acceptance and Likelihood of Success

Rhode Island has room to increase its income tax rates while keeping them lower or very similar to those in Massachusetts and Connecticut.

Tolls

Description

Tolls are user fees paid for access to a road, bridge, or special lane and are applied per use. Toll revenues are used to fund transit in Northern Virginia, San Francisco, CA, and New York City. In New England, Massachusetts, New Hampshire, and Maine charge tolls to all vehicles on some highways and bridges. Connecticut and Vermont do not charge any tolls on any vehicles. Rhode Island, through its Rhode Works program, recently began charging tolls on large commercial vehicles at 12 locations on I-95, I-295, Route 6, and Route 146.

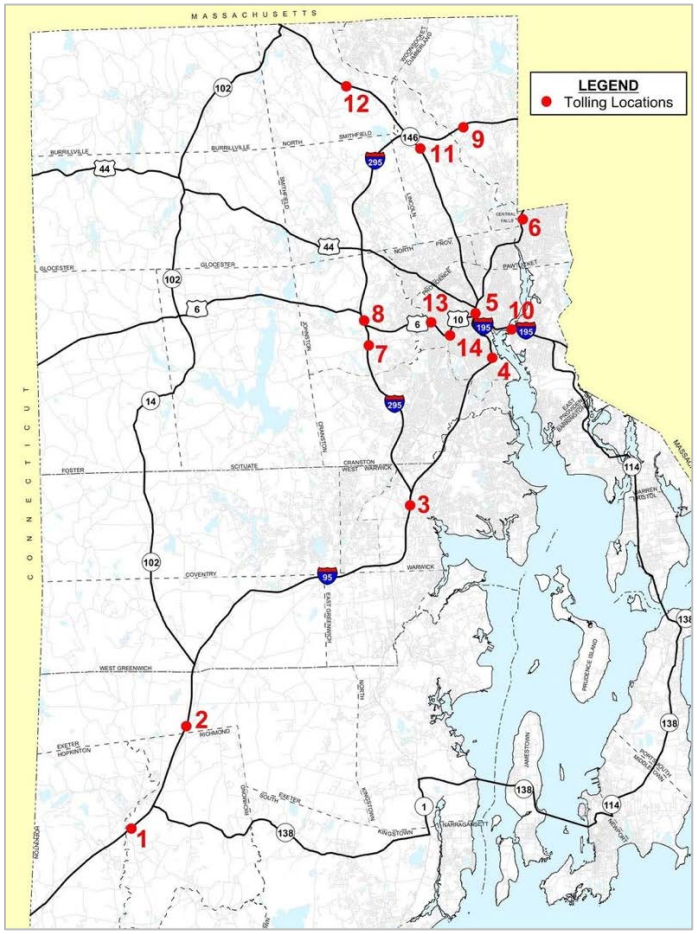
Through Rhode Works, the infrastructure that needed to expand tolls to all vehicles is already in place. However, the Rhode Works legislation prohibits assessing tolls on cars and small trucks. Therefore, new legislation would be needed to expand tolling to all vehicles.

Examples

Three examples of the use of toll revenues to fund transit include:

- Northern Virginia: In 2017, for a variable toll, Virginia began letting single occupancy vehicle use its HOV lanes and dedicates $10 million per year of the revenue to transit.
- San Francisco, CA: The Golden Gate Bridge Highway and Transportation District runs the Golden Gate Bridge and Golden Gate Transit. Tolls collected on the bridge provide funding for over one-third of transit costs.
- New York City, NY: The New York City area's Metropolitan Transportation Authority, or MTA, operates rapid transit, commuter rail, bus service, and seven bridges and tolls. In

Figure A-5 | RhodeWorks Tolling Locations



Note: Tolls are not currently charged at locations 5 and 14.

2018, toll revenues contributed $1.8 billion toward MTA's $15 billion budget, over 95% of which was for transit.

Potential Revenue

The RhodeWorks program imposes tolls at 12 locations on I-95, I-295, Route 6, and Route 146 (see Figure A-5). A 25¢ toll on all passenger automobiles at these locations would generate an additional $79.4 million per year.

Rates in Massachusetts and Connecticut

Massachusetts charges tolls on the Massachusetts Turnpike and may many bridges and tunnels. The toll revenues can only be used to fund expenses associated with operations related to the tolled road.

Connecticut does not charge any tolls on any vehicles. Early in 2020, Connecticut's Governor proposed implementing electronic tolling on I-84, I-91, I-95 and the Merritt Parkway that would charge 4.4¢ per mile and be used for both roadway and transit projects, including faster rail service between New Haven and New York City. However, the measure stalled in the Legislature.

Predictability and Stability

Once established, revenues would relatively stable and would increase with traffic volumes.

Equity Considerations

Tolls are generally considered vertically equitable, because they charge users directly for the congestion and roadway costs they impose.

Public Acceptance and Likelihood of Success

There is often public opposition to tolls, particularly on existing roadways, although surveys indicate some acceptance if revenues are used to support popular road and public transport improvements. In addition, in Rhode Island, the RhodeWorks legislation prohibits tolls for automobiles and light trucks.

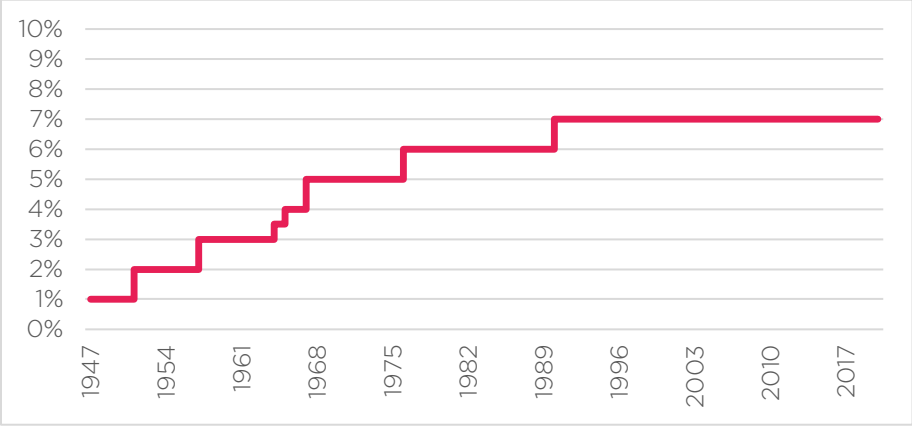
Sales Tax

Description

Sales taxes are paid by consumers on the sales of specified goods and services. Many jurisdictions (particularly in the U.S.) rely significantly on sales taxes to finance public transit.

Rhode Island's sales tax is 7% of gross receipts from retail sales, including hotel room rentals, motor vehicle purchases, and car rentals. Rhode Island's sales tax has been at this rate since 1990, when the rate was raised via legislation.

Figure A-6 Rhode Island Historical Sales Tax Rate



For 2020, Rhode Island projects to generate $1.2 billion in sales tax revenue. All of Rhode Island's sales tax revenue is directed to the state's General Revenues.

Examples

Sales taxes are the most important source of funding at many transit systems and are frequently used to fund major transit expansion programs. An example list of transit systems funded by sales taxes along with the tax rates is shown in Table 6.

Table A-10 | Use of Sales Taxes for Operations

City/Transit System	Sales Tax Rate
Boston/MBTA	1.0%
Denver/RTD	1.0%
Los Angeles/LA Metro	2.0%
San Diego/MTS	0.5%
Phoenix/Valley Metro	0.7%
Salt Lake City/UTA	1.2%
Seattle/King County Metro	1.4%
Dallas/DART	1.0%
Fort Worth/Trinity Metro	0.5%

Sales taxes are also the most common way to fund major expansion programs, and examples include:

- Denver Metro Area: Denver RTD's FasTracks program produced one of the most aggressive transit expansions in the country. The major funding source was a 0.4% sales tax that was authorized by voters in 2004 for what was then a $4.7 billion-dollar expansion program. Through FasTracks, RTD has developed new light rail and commuter rail services and expanded bus services. At present, the total sales tax in the City of Denver is 8.3%.
- Maricopa County, AZ: In Maricopa County, AZ, which includes Phoenix, voters approved Prop 400, which authorized a 0.5% sales tax for transportation (roadway and transit improvements). This vote was largely responsible for

the development of the Phoenix area's light rail line, as well as bus service improvements.

- Phoenix, AZ: More recently, in 2015, voters in the City of Phoenix passed Prop 104, which increased the local sales tax for transit from 0.4% to 0.7%. This tax is in addition to the county-wide Prop 400 sales tax and will be used to expand light rail and BRT, and to increase service frequencies and spans on local bus routes. The total sales tax in Phoenix is now 8.6%
- Los Angeles, CA: In 2018, voters in Los Angeles County approved a $61.5 billion, 40-year program of comprehensive transportation improvements (Measure M). Of the $61.5 billion, $29.9 will be used for bus and rail services, and $1.9 billion for regional rail services. The measure will be funded largely through an increase in the sales tax for transit from 0.5% to 1%. The total sales tax in Los Angeles County is 9.5%.
- Peugeot Sound, WA: In 2016, voters in the Seattle area approved a package of revenue increases to fund a $53.8 billion expansion of Sound Transit's light rail system, the construction of two BRT lines, and commuter rail improvements. This initiative – Sound Transit 3, or ST3 – increased the local sales tax by 0.5%. The current total sales tax in the City of Seattle is 10.3%.
- Broward County, FL: In 2018, voters in Broward County, FL authorized a one percent sales tax increase to fund $15.6 billion in transit improvements. Of the $15.6 billion, $9.0 billion will be to develop new light rail lines, and the remainder will go toward new and enhanced local bus routes, expanded paratransit and community shuttle services, bike lanes, transit signal priority, and roadway drainage to prevent flooding. The total sales tax in Broward County is now 7.0%

Potential Revenue

A common sales tax rate for transit is 0.5%, and in Rhode Island, this rate would generate approximately $83 million per year.

Additional revenue could also be gained by broadening the sales tax base but keeping the sales tax rate at the same level (see discussion below).

Rates in Massachusetts and Connecticut

Rhode Island's current sales tax is 7%. This is higher than Massachusetts' 6.25% and Connecticut's 6.35%, but average compared to the rest of the country.

There are many items exempted from the sales tax in Rhode Island including food products, clothing, newspapers, and boats. Additionally, most services in Rhode Island are not taxed. Rhode Island taxes only 37 out of 167 service categories, which ranks it 32nd nationally in terms of the number of services subject to state sales tax. At least 20 states tax services which are currently exempt under Rhode Island law. These include, for example, tuxedo rentals, carpet and upholstery cleaning, diaper services, laundry and dry-cleaning services, shoe repair, clothing repair and alteration services, and memberships in private clubs.

Predictability and Stability

Sales taxes are relatively stable but do fluctuate based on economic conditions.

Equity Considerations

Sales taxes are regressive in that people with lower incomes pay higher proportions of their income on sales taxes than do those with higher incomes.

Public Acceptance and Likelihood of Success

Sales taxes are among the most frequently used ways to fund transit improvement programs and high a high rate of success in voter referendums. However, a concern in Rhode Island would be that a sales tax increase would increase the premium over Massachusetts and Connecticut and encourage more residents to shop out of state.

Secondary Sources

Fuel Tax

Description

Motor fuel taxes are levied on the sales of fuel on a per gallon basis. In some places, the rates are fixed, while in others they are tied to changes in inflation or other costs. Rhode Island currently taxes fuel at 34¢ per gallon. This rate includes a 1¢ environmental surcharge. It is also adjusted every two years based on inflation.

Of the current 34¢, RIPTA receives 9.75¢ – 9.25¢ directly and half of the environmental surcharge (0.5¢) indirectly through though the Department of Environmental Management (DEM). This revenue is RIPTA's primary source of operating funds. For FY 2020, RIPTA received approximately $44.4 million in fuel tax revenues.

RIPTA will not receive any of the inflation-related future year increases and thus the value of RIPTA's 9.75¢ will decrease over time.

Examples

A total of 20 states use fuel tax revenue for transit. New York and New Jersey, for example, allocate over a third of their respective motor fuel tax revenue to transit.

Potential Revenue

Each one cent increase in Rhode Island's gas tax would generate approximately $4.2 million in new revenue per year. A five-cent increase would generate $21.3 million per year.

Rates in Massachusetts and Connecticut

Rhode Island gas tax, at 34¢ per gallon, is currently the 17th highest in the nation. Connecticut tax is slightly higher at 35.75¢, while Massachusetts' is over 8¢ lower at 26.54¢.

Predictability and Stability

Due to improved fuel economy, a shift toward electrification of vehicles, and other factors, gas tax revenues have not been increasing significantly. Between 2011 and 2018, revenues have ranged from a low of $40.7 million in 2014 to a high of $44.1 million in 2016, with variances between years largely explained by some out-of-state fleet quarterly payments accruing to the next fiscal year. Relatively flat revenues are expected to continue over the short-term, while over the longer-term, they are expected to decrease with a shift to electric vehicles.

Equity Considerations

Fuel taxes are considered to be regressive, as lower income people pay a higher proportion of their incomes on gas taxes. However, this regressivity is reduced if the tax is used to fund public transit improvements that provide a more convenient and affordable alternative to driving.

Public Acceptance and Likelihood of Success

In general, fuel tax increases tend to be unpopular. However, surveys and focus groups[3] indicate moderate support to fuel tax increases that are dedicated to transportation improvements.

[3] https://www.transportation.gov/utc/will-americans-support-fuel-tax-increases-answer-could-be-surprising

Local Assessments

Description

Some transit districts assess local communities in return for service each year. Usually, these assessments are based on a formula that considers transit service demand-related factors such as local population, access to other transit authorities, and proximity to transit.

RIPTA's enabling legislation allows the agency to assess communities for service provided, but this funding mechanism has never been used by the agency.

Local Assessments in Massachusetts and Connecticut

In Massachusetts, communities served by any transit agency are assessed based on a state-mandated formula that considers local population, access to other transit authorities, and proximity to service. The amount each community pays does not correlate to the level of service received. In 2018, MBTA assessments represented about 8% of its operating costs.

Local transit districts in Connecticut rely more heavily on municipal contributions. The method for assessing these contributions vary by district.

Potential Revenue

In Rhode Island, a 5% local assessment would generate an average of approximately $11 million per year.

Predictability and Stability

Local assessments are a very predictable and stable source of revenue.

Equity Considerations

Local assessments tend to be progressively structured because the taxpayers of the areas that are best served by transit tend to pay the most for that service.

Public Acceptance and Likelihood of Success

The public acceptance of leveraging the local assessment funding option available to RIPTA is unknown. However, RIPTA does have authority granted by its enabling legislation to use this option.

Special Assessment Districts

Description

Special assessment districts are a special property tax imposed in areas with high quality public transit, intended to recover a portion of the increased land values provided by transit and to help finance the service improvements. One common way to fund major projects is to develop special assessment districts in the area that is served by and benefits from the transit improvement. The taxes are typically based on property value, or sales, special business fees, or other measures of value.

Examples

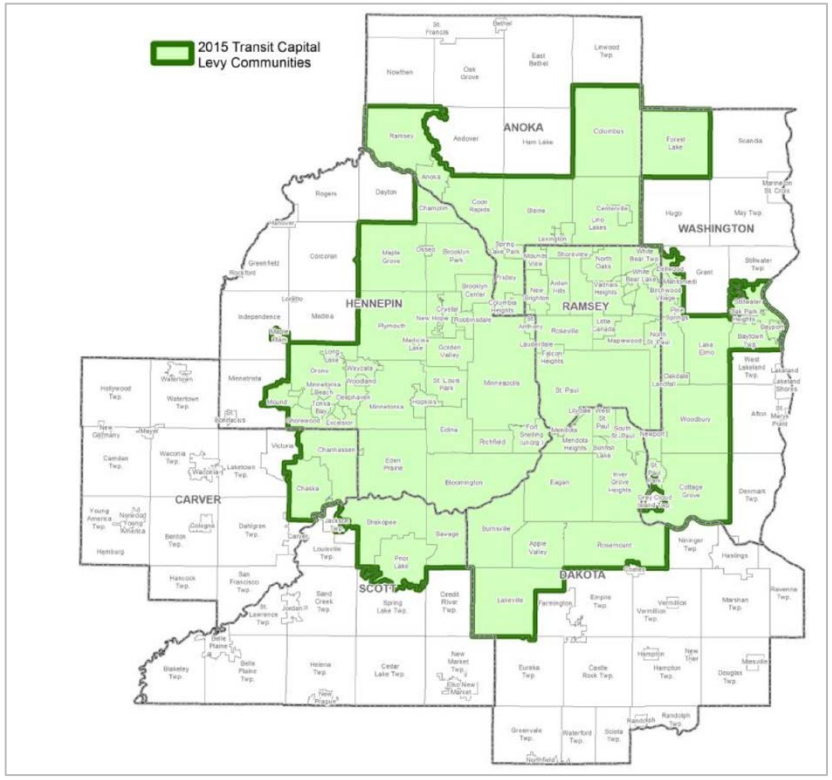
Examples of Special Assessment Districts include:

- Kansas City, MO: Kansas City developed a Transportation Development Districts (TDDs) to fund construction and operation of its streetcar line. The TDD consists of an area of approximately ½ mile to each side of the line. The first TDD was approved by voters within the proposed district and funded development of current streetcar line. In 2017, voters approved the creation of a second district to extend the line 3.8 miles southward. The TTDs impose a variety of taxes and fees:
  - 1% sales tax within the TDD boundary
  - A special assessment (property taxes) on real estate within the TDD boundary, with maximum rates as follows:
    - 48¢ for each $100 of assessed value for commercial property
    - 70¢ for each $100 of assessed value for residential property
    - $1.04 for each $100 of assessed value for property owned by the City
    - 40¢ for each $100 of assessed value for real property exempt from property tax, such as religious, educational, charitable, etc. property, but only on market value more than $300,000 and less than $50 million.
  - An assessment on surface pay parking lots within the TDD boundary (not garages and not free parking lots). The maximum rate for the supplemental special assessment on surface pay parking lots is $54.75 per space per year.

- Minneapolis, MN: Via state legislative action, a number of communities have been designated as a Regional Taxing District with a property tax levy for transit capital purposes (see Figure A-7). The area is a subset of a seven-county area

that can expand based on service agreements. The funds are used for debt service on bonds issued by the Metropolitan Council, with the bonds used primarily for transit fleet maintenance and replacement, and some facilities.

Figure A-7 | Minneapolis Area Regional Taxing District



- Northern Virginia: In northern Virginia, two counties created Special Assessment Districts to fund the extension of rapid transit service from Washington, D.C. to Dulles International Airport:
  - Fairfax County established a special tax district on commercial and industrial properties in 2004 to fund the county's portion of Phase 1 of the extension. The district consists of most of the Tysons Corner Urban Center and an area around the Phase 1 stations and assesses a property tax of 22¢ per $100 of assessed value. In 2009, the county established a second special tax district consisting of the area around its Phase 2 stations. In that district, the property tax rate started at 5¢ per $100 and increased five cents each year to 20¢ in FY 2014.
  - Loudoun County implemented a "Metrorail Service District" to pay for its portion of Phase 2 of the project. That district consists of properties around the Phase 2 stations in Loudoun County with a levy of 20¢ per $100 of value.
- Columbus, OH: In 2018, a downtown assessment district in Columbus provides free transit passes for downtown workers. An estimated 14,800 out of 30,000 eligible workers in the district have registered for the pass and made about 25,000 weekly trips during the first year of the program. Bus ridership during rush hour increased by about 24%. Funding is matched by the local planning commission.

Potential Revenue

Special Assessment Districts could potentially fund the non-federal portion of light rail and/or BRT projects, or an average or $23 to $50 million per year.

Predictability and Stability

Special Assessment District revenues are very stable.

Equity Considerations

Special Assessment Districts are designed to capture value from developers and property owners. However, they and the transit improvements that they produce, can put upward pressure on housing costs.

Public Acceptance and Likelihood of Success

Surveys and focus groups indicate relatively high support for land value capture.

Rideshare Tax

Description

Cities and states are beginning to impose fees on rideshare trips (for example, Uber and Lyft) to raise money for transit. This is being done, in part, in response to a growing body of evidence that ridesharing is worsening congestion and taking potential customers away from public transit. Rhode Island currently does not assess a fee on rideshare trips, but trips are subject to the state sales tax. In addition, TF Green currently charges rideshare companies $6 per pickup at the airport.

Examples

Three examples of taxes on rideshare trips include:

- Massachusetts currently has a 20¢ fee on rideshare trips, with 5¢ designated for taxis, 10¢ going to cities and towns, and the final 5¢ designated for a state transportation fund which includes funding for transit. This fee, in total, generates $16 million per year. (Earlier in 2020, the Governor of Massachusetts proposed raising this tax to $1.00 per trip, with 30% for cities and towns and 70% for transportation purposes, mostly for transit. A $1.00 tax is estimated to generate $73 million per year.) Sales tax is not levied on rideshare trips in Massachusetts.
- In January 2020, Seattle enacted a 57¢ tax on rideshare trips with the funds directed toward affordable housing initiatives and new streetcar service.
- In 2016, Chicago enacted a 72¢ per trip tax on rideshare trips to fund transit infrastructure. In January 2020, it revised this tax to a set of rates that range from 65¢ for shared trips in neighborhoods to $3 for private trips in downtown during peak periods. The tax rate changes are expected to generate an additional $40 million per year.

Potential Revenue

Only limited information is available on the number of rideshare trips taken in Rhode Island. In Massachusetts, use varies greatly throughout the state – from 59 trips per capita in the Boston core to five outside of the Boston core and an average of 13 statewide. Providence is much smaller than Boston, but as a state, Rhode Island is more densely developed overall than Massachusetts. Assuming that Rhode Island residents average 10 rideshare trips per year, a $1 per trip tax would generate approximately $10.6 million per year.

Rates in Massachusetts and Connecticut

As described above, Massachusetts currently has a 20¢ per ride tax on rideshare trips. Connecticut does not currently tax rideshare trips. The imposition of rideshare taxes in Rhode Island would not have cross-border implications as riders would not travel out of state to make a local trip.

Predictability and Stability

Per-trip rideshare taxes have been shown to be unlikely to alter riders' use of rideshare services. Pre-pandemic, use has been increasing rapidly and will likely do so again after the pandemic is over.

Equity Considerations

The use of rideshare services is a very discretionary expense for which higher costs can be offset though greater use of lower cost options.

Vehicle Registration Fee

Description

A vehicle registration fee—also known as a vehicle levy—is a fee for registering vehicles in a region. In Rhode Island, base vehicle registration fees are charged biennially and vary based on the weight of the vehicle being registered, with most charged $40. In addition, there is a biennial registration fee surcharge of $30 and a biennial technology fee of $2.50 that is assessed at the time of registration These fees bring the typical vehicle registration fee in Rhode Island to $72.50 on a biennial basis.

Examples

Three examples include:

- In 2016, Wake County, NC voters approved a 0.5% sales tax increase and a $10 increase in annual vehicle registration fees to fund the $2.3 billion Wake Transit Plan.
- Alameda, CA, which is in the San Francisco Bay Area, charges a vehicle registration fee of $10 per year, 25% of which is dedicated to transit.
- San Francisco, CA charges a $10 annual vehicle fee that is used for transportation improvements, including transit.

Potential Revenue

An increase in biennial fees of $10 (or $5 per year) would generate $6.9 million per year and an increase of $20 would generate $13.8 million.

Rates in Massachusetts and Connecticut

Rhode Island's current biennial registration fees total $72.50 for most passenger vehicles. This is between the comparable fees of $60 in Massachusetts and $80 in Connecticut. Car owners in New England have relatively moderate vehicle registration costs compared to Washington, DC and several states including Idaho, Illinois, Maryland, Missouri, and Montana.4

Predictability and Stability

Vehicle registration fees are a very predictable and stable source of revenue.

Equity Considerations

Since vehicle fees are the same for vehicles regardless of annual mileage, this fee poorly reflects the external costs imposed by a particular vehicle. Also, the fee tends to be regressive in that lower income motorists tend to drive fewer miles and, as a result, pay a higher cost per mile.

Public Acceptance and Likelihood of Success

According to survey and focus group responses, vehicle levies have less public acceptance than other transportation-related revenue options.

4 National Conference of State Legislatures

Real Estate Transfer Tax

Description

Real estate transfer taxes are imposed on the transfer of title of real property. In most cases they are based on the value of the property transferred. Thirty-nine states and the District of Columbia, including Rhode Island, impose this tax. Rhode Island's real estate transfer fee is $2.30 per $500 of value, or 0.46%.

Examples

Two examples of the use of real estate transfer fees for transit include:

- Virginia has a deed-recording fee that that ranges from $21 to $54 that is used to support local bond issues for transit projects.
- Florida charges a real estate documentary tax of $0.70 per $100 of the transaction value, 10% of which is used to match federal New Starts funds.

Potential Revenue

A 50¢ increase in the rate from $2.30 to $2.80 per $500 of value, or from 0.46% to 0.56%, would generate $3.1 million in 2020 and would increase at the same rate as real estate values.

Rates in Massachusetts and Connecticut

Rhode Island's real estate transfer fee is $2.30 per $500 of value, or 0.46%. This is slightly higher than Massachusetts' tax of 0.456% but significantly lower than Connecticut's rates that range from 1.0% to 1.75% (see Table A-11).

Table A-11 | Connecticut Real Estate Convenance Tax Rates

Jurisdiction/Property Type	Rate
State Tax	
Unimproved Land Residential Dwelling (portion ≤ $800,000) Other Residential Property Conveyed by a Delinquent Mortgagor	0.75%
Nonresidential Property Residential Dwelling (Portion > $800,000)	1.25%
Municipal Tax	
All Municipalities	Up to 0.25%
Target Investment Communities	Add'l 0.25%
Totals	
Total	1.0% – 1.75%

Predictability and Stability

Revenue from this source can fluctuate over the short-term due to economic conditions, but increases over the long-term.

Equity Considerations

The value of property owned by individuals and companies is generally correlated with wealth, and thus higher amounts would be charged to those who are wealthier and lower amounts to those who are poorer.

Public Acceptance and Likelihood of Success

Unknown.

Rental Car Tax

Description

Rental car taxes are generally applied to the cost of vehicle rentals or on a percentage and/or per day basis. This type of tax is incurred primarily by visitors to a region or to businesses that make extensive use of car rentals. Rental car taxes are implemented in various way, for example, as a sales tax or on a per rental basis.

Rhode Island currently applies its sales tax to rental car and adds an 8% surcharge, most of which is returned to rental car companies to offset the use taxes. Rhode Island also assesses a $3.75 per day Customer Facility Charge on vehicles rented at T.F. Green Airport that are used to pay for the parking garage that houses the rental car fleets.

Examples

Rental car taxes are sometimes used for transit and are implemented in various ways:

- Allegheny County, PA, which is where Pittsburgh is located, imposed a $2 tax on vehicle rentals to fund Port Authority services.
- In Arkansas, 90% of the $1.5 million in state funds allocated for rural systems comes from a rental car tax.
- Sound Transit in Washington State is in part funded by a car rental tax.

Potential Revenue

A 1% increase in the rental car surcharge would generate only $0.5 million per year.

Rates in Massachusetts and Connecticut

Connecticut levies a $1 per day "tourism surcharge" on rental cars. Massachusetts levies a similar $2 surcharge on rentals. In addition, Boston collects a $10 fee per rental to fund a convention center. Car rentals in both states are subject to the state sales tax.

Predictability and Stability

Rental car levies tend to be relatively predictable and stable.

Equity Considerations

Rental car levies are paid by travelers, who tend to be higher income and/or reimbursed by employers.

Public Acceptance and Likelihood of Success

Like hotel taxes, rental car taxes are typically easily accepted by residents because they are paid mostly by visitors.

Lodging Tax

Description

Lodging taxes are applied to the cost of lodging at hotels, rooming houses, campgrounds, etc. Rhode Island taxes room rentals in lodging establishments at a total rate of 13%, which is comprised of the state's 7% sales tax plus an additional 5% State Hotel Tax and an additional 1% Local Hotel Tax. The rental of entire dwelling units such as houses and condominiums is taxed at 8%, which is comprised of the 7% sales tax and the 1% Local Hotel Tax.

Examples

Few places use lodging taxes to fund transit. However, the 2016 Let's Move Nashville campaign (that was voted down) would have imposed a lodging tax that would have started at 1.4% and increased over time to 3.75%.

Potential Revenue

An additional 1% tax would generate $4.2 million per year.

Rates in Massachusetts and Connecticut

Both Massachusetts and Connecticut have hotel taxes but do not apply their sales taxes to hotels. Connecticut's hotel tax is 15%, which is the highest statewide lodging tax in the country and higher than Rhode Island's total rate of 13%. Massachusetts' hotel tax is 5.7%, but local occupancy taxes of up to 6% (and 6.5% in Boston) are allowed. An additional 2.75% tax can be assessed for specific purposes in Massachusetts (i.e., Convention Center funding in Boston). As a result, the total lodging tax rate in Boston is 14.95%.

Predictability and Stability

Like income taxes, this tax tends is subject to economic conditions but overall is relatively predictable and stable and increase over time.

Equity Considerations

Hotel taxes are paid by travelers, who tend to be higher income and/or reimbursed by employers. Higher income individuals also tend to stay at more expensive lodgings, and thus pay higher amounts, while lower income travelers tend to stay at lower cost lodgings and pay lower amounts.

Public Acceptance and Likelihood of Success

Lodging taxes are typically well received by residents because they are most paid by visitors.

Alcohol Tax

Description

Every state in the United States taxes alcohol, and those revenues can be used for any purpose.

Examples

There are very few examples of the use of alcohol taxes for transit. One is Allegheny County in Pennsylvania (the home to Pittsburgh), which imposes 10% tax on poured drinks in bars that is dedicated to transit.

Potential Revenue

Rhode Island taxes alcohol in two ways. The first is an excise tax charged to producers, distributers, and manufacturers, which varies by type of alcohol. The predominant per gallon rates are 10¢ for beer, $1.40 for wine, and $5.40 for hard liquor. The rates for beer are among the highest in the country (8th and 11th respectively), but its tax on wine is low (42nd highest). A 10% increase in the excise tax on wine would generate $400,000 per year. An across the board increase of 10% on all alcohol would generate $1.5 million per year.

The second way that the state taxes alcohol is that it applies the 7% sales tax on sales at liquor stores (this tax had been suspended but was re-instated in 2020). The sales tax generates significantly more than the excise tax, and a 1% increase to 8% would generate $3.6 million per year.

Rates in Massachusetts and Connecticut

Massachusetts and Connecticut charge excise taxes in a similar manner as Rhode Island. In Massachusetts, the major rates are 10¢ for beer, $1.10 for wine, and $4.05 for hard liquor. Like Rhode Island, Massachusetts recently reinstated its sales tax on alcohol, which is taxed at the state rate of 6.25%.

Connecticut charges 24¢ for beer, 72¢ for wine, and $5.40 for hard liquor. Connecticut also applies it 6.25% sales tax to alcohol.

Predictability and Stability

Alcohol taxes tend to be relatively predictable and stable.

Equity Considerations

Alcohol taxes are often viewed as “virtuous” as higher costs discourage consumption. However, as with all sales taxes, lower income people pay a higher proportion of their incomes.

Public Acceptance and Likelihood of Success

Alcohol is already heavily taxed, and as described above, Rhode Island’s taxes are already high, and generally the same or higher than in Massachusetts and Connecticut. The already high tax rates, in both absolute terms and relative to neighboring states would likely make increases difficult.

Cigarette Tax

Description

Every state in the United States taxes cigarettes and those revenues can be used for any purpose.

Examples

There are no significant examples of cigarette taxes being used to fund transit.

Potential Revenue

Rhode Island currently taxes cigarettes at $4.25 per package. This is the fourth highest rate in the country and only 25¢ below the highest, which is charged in Washington, D.C. A 25¢ increase to match Washington's rate would generate $1.8 million per year.

It should also be noted that counties and cities in nine states also tax cigarettes. For the jurisdictions that charge local taxes, the taxes are frequently $2 to $3 dollars per pack on top of state taxes. When these are considered, state and local taxes are as high as $7.16 a pack (in Chicago).

A second approach, and one used in Connecticut, would be apply the state's sales tax to cigarettes. This would generate $23.0 million per year.

Rates in Massachusetts and Connecticut

Massachusetts charges $3.51 per pack. Connecticut charges $3.90 a pack, and also applies its 6.35% sales tax, bringing the total to approximately $4.43. Neither allow counties and cities to charge additional amounts.

Predictability and Stability

Cigarette taxes are relatively predictable but sales are in the midst of a long-term decline as fewer people smoke.

Equity Considerations

Cigarette taxes are often viewed as "virtuous" as higher costs discourage consumption. However, as smoking rates are higher among lower income people, increases in cigarette taxes disproportionately paid by low income people.

Public Acceptance and Likelihood of Success

As described above, Rhode Island's taxes are already high. However, they are in between those in Massachusetts and Connecticut. The chances for success are difficult to ascertain – many advocate for higher taxes on cigarettes to discourage use but the already high rate would present a barrier.

Transportation Utility Fee

Description

Some jurisdictions add a fee to local government utility bills.

Examples

TransLink in Vancouver receives a hydro levy of $1.90 per month from each BC Hydro account within its service region. This levy generates approximately $18 million per year in revenue

Potential Revenue

A $2 monthly fee on household electric bills in Rhode Island would generate $10 million per year. Fees could also be placed on business accounts and other types of utility bills.

Predictability and Stability

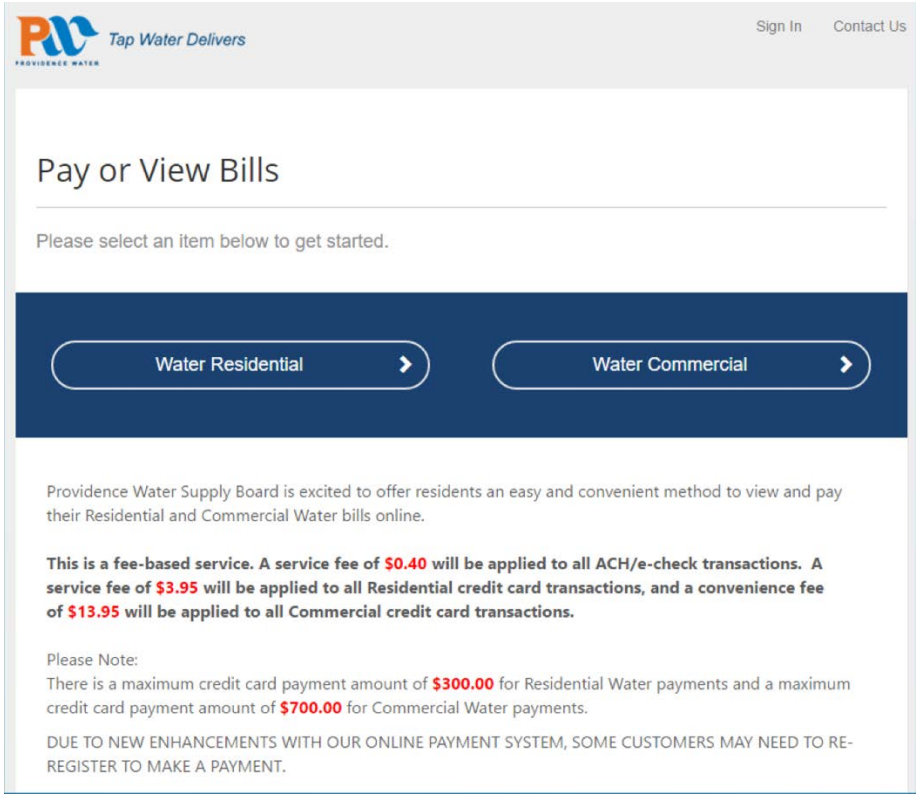
A Transportation utility would be a very stable source of revenue.

Equity Considerations

A utility levy is likely to be regressive since it is a flat fee per household. However, the fee would be small.

Public Acceptance and Likelihood of Success

According to surveys and focus group research, utility levies have very low levels of low public acceptance.



Other Potential Sources

Cannabis Tax

Description

At present, medical cannabis sales are legal but recreational sales are not. For medical sales, Rhode Island currently imposes a total tax of 11%, which is comprised of the state's 7% sales tax plus a 4% compassion center surcharge.

Trends in New England and the United States are towards legalization and high taxation in the form of excise taxes paid by producers and retailers, sales taxes paid by customers, or both.

Examples

Nine states have legalized recreational marijuana. Of these states, eight tax sales, two tax sales and production (on a per ounce basis) and one taxes only production (see Figure A-8). None of these states dedicates any of the revenues specifically to transit.

Potential Revenue

If Rhode Island decides to legalize Cannabis for recreational use, experience from other states indicates that sales would be $70 to $100 per capita. If Rhode Island matched the Massachusetts consumption tax rate of up to 20% and dedicated the revenue to transit, a cannabis tax could generate $15 to $21 million per year.

Rates in Massachusetts and Connecticut

Cannabis sales are legal in Massachusetts but not in Connecticut. Massachusetts imposes its 6.25% sales tax on cannabis, plus an additional 10.75% for a total state tax rate of 17%. Local cities and towns can impose an additional tax of 3%, which can increase the total to 20%.

Predictability and Stability

In mature markets, this tax is predictable and stable.

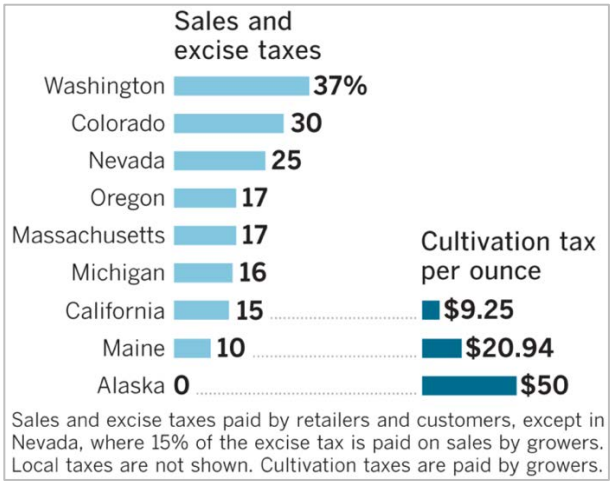
Equity Considerations

Cannabis taxes are sales taxes, and as with most sales taxes, lower income people tend to spend a higher proportion of their income on sales taxes.

Public Acceptance and Likelihood of Success

A 2017 survey[5] found that 3 out of 5 Rhode Island residents supported legalized recreational marijuana.

Figure A-8 | Recreational Marijuana Taxes



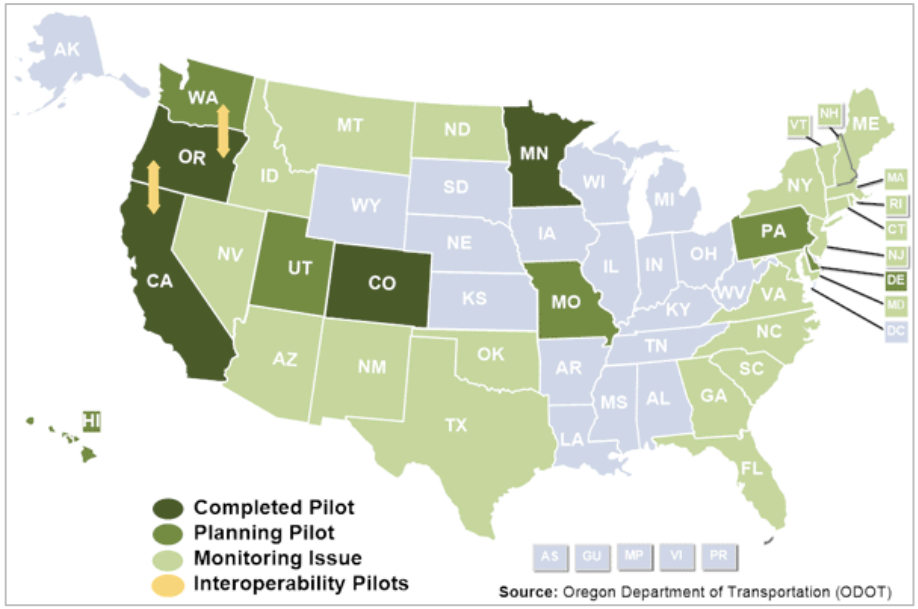
[5] https://www.providencejournal.com/news/20170207/3-out-of-5-in-ri-support-legalized-recreational-marijuana-poll-says

Vehicle Miles Traveled Fee

Description

Vehicle Miles Traveled (VMT) fees are assessed based on the number of miles vehicles travel. These fees are currently being studied but have not yet been implemented in the US beyond pilots (see Figure A-9). Economists widely consider VMT charges to be preferable to fuel taxes in that fees are more directly tied to amounts of travel. They would also increase as travel increases, whereas fuel tax revenues are expected to decline despite increases in travel.

Figure A-9 | VMT Fee Efforts in the United States (2018)



Mileage-based road user charges could range from a flat rate per mile to variable charges. The number of miles traveled can be determined based on odometer readings and via GPS.

Examples

VMT fees have been proposed in many jurisdictions, but so far have only been implemented for freight trucks in Germany. Since 2005, all trucks have been charged a VKT of €0.09 to €0.14 per kilometer based on the truck's emissions levels and number of axles. This equates to approximately 7¢ to 11¢ per mile.

Potential Revenue

A 1¢ per mile fee would generate $80 million per year.

Predictability and Stability

Whereas fuel taxes are projected to decrease long term with a shift to electric vehicles, VMT revenues would increase as travel increases.

Equity Considerations

A VMT tax or fee is likely to be regressive as lower income individuals spend a larger proportion of their incomes on transportation. However, to the degree that public transit improvements provide other options, this regressivity is reduced.

Public Acceptance and Likelihood of Success

To date, in the United States, the idea of VMT fees have been unfavorable, and none have yet to be implemented other than as tests. Many surveys have indicated privacy concerns from the GPS-based option of collecting drivers' VMT.