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# Creative ways to fund on-demand public transportation and microtransit.

Finding the cash for trailblazing new transit tech is often half the battle. Here are nearly a dozen ways cities are creatively funding new on-demand public transportation networks.



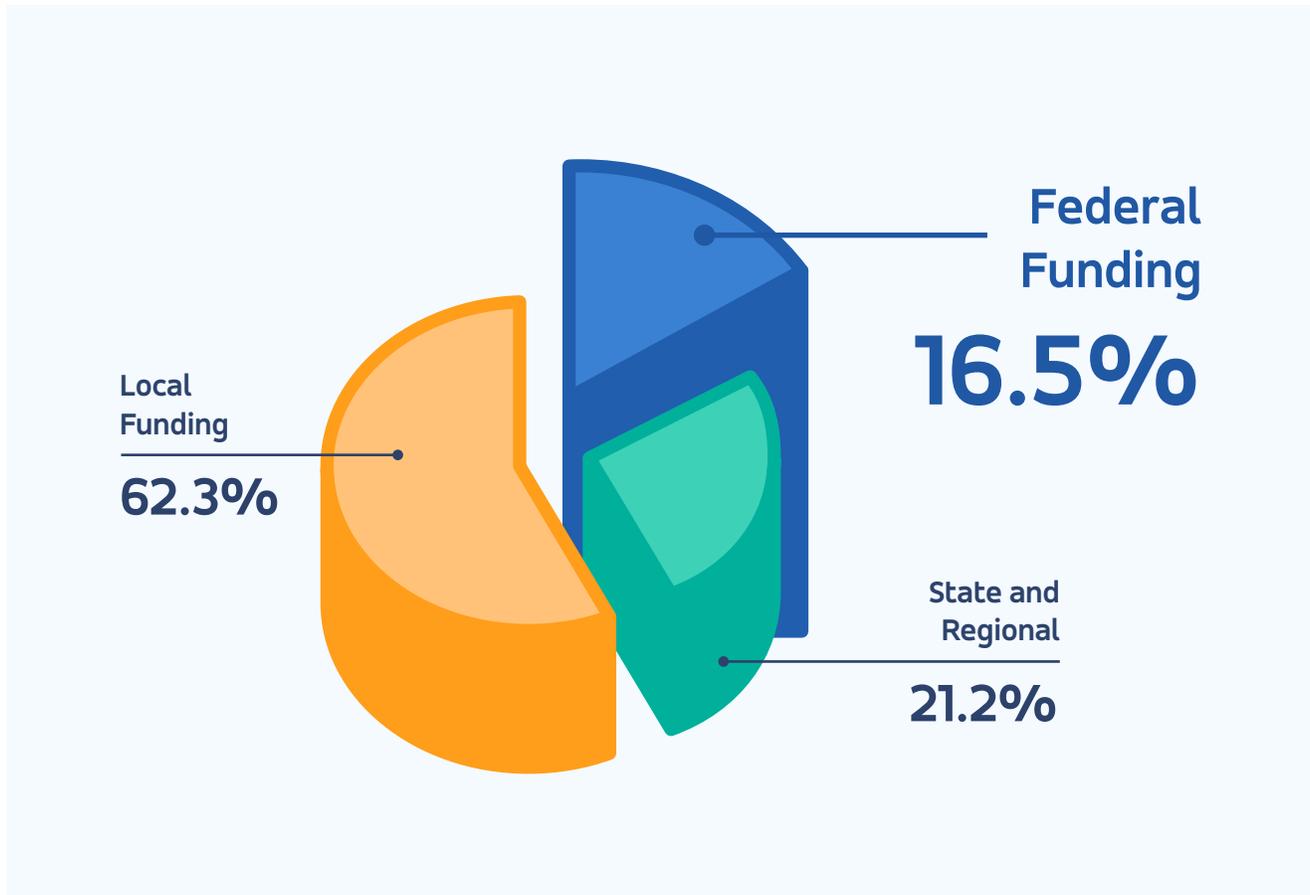


Hailed as the future of public mobility, microtransit – sometimes called on-demand transit, sometimes associated with demand-responsive transit – is proving to be what’s new, now, and next in public transportation. But despite [Frost & Sullivan](#) predicting that microtransit shuttles will account for 50% of the shared mobility market by 2030, one of the biggest hurdles cities and transit agencies in the United States face is how to actually fund these technology-powered transit networks.

First, a little background: funding for public transportation is highly localized – a combination of local and state taxes, federal funding, and fare revenue. Historically, federal funding has focused on capital expenditures like purchasing buses or constructing subway stations. State funding is a bit more of a mixed bag, but often also focuses on capital projects.

That’s one main reason most cities and transit agencies use local sources of revenue to fund on-demand microtransit, which is characterized by very light capital costs and therefore often requires funding that can be spent more flexibly. Thankfully, over the last couple of years, agencies and cities developed a number of other ways to fund projects. As policies at the federal and state level continue to evolve to account for innovative transit and its benefits, the pool of available resources will almost certainly grow over time.

Below, we’ve listed a number of ways communities are funding their microtransit dreams, breaking them down into three buckets: federal, state, and local.



## Tapping into federal funding to power microtransit.

Despite federal funding accounting for only [16.5% of overall public transit funding](#) in the United States, it has been an important element in launching several microtransit projects across the country. Federal funding mainly comes in two forms:

1. Formula funds which typically are distributed through the states, and then eventually trickle down to transit agencies based on area population, existing transit service, and some other factors.
2. Competitive grant programs that are open to agencies, as well as cities and states.

## Federal formula funds.

The [Federal Transit Administration \(FTA\)](#) began [recognizing microtransit as public transportation](#) in 2016, allowing formula funds to be used towards microtransit projects. How exactly these funds can be used depends on how the agency is deploying microtransit. This option is also only available to entities that receive federal formula funds (many cities and smaller transit agencies, for example, don't typically get formula funds).

In many cases, transit agencies want to operate their own microtransit services using an existing pool of vehicles and drivers. What they need is to license the technology and software to power such a service. Licensing [software is considered a capital cost](#) and can be covered at up to an 80% match with federal formula funds.

Other transit agencies deploy microtransit by contracting with a private provider to operate the whole service – what some call a “turnkey” solution or “transportation as a service (TaaS).” In this arrangement, agencies can apply the FTA’s [“capital cost of contracting”](#) policy and receive up to 80% match for half of a turnkey contract’s cost. In small urban and rural communities (any community under 200,000 in population), the remaining 50% of the contract is treated as an operational cost and can receive up to 50% in federal match.

## Federal programs that cover local match.

Any community receiving federal funds will need to find a local match to fully finance their project. While most communities find their local match in their local budgets, there are some federal programs that provide funding that can serve as a local match. The FTA outlines these programs in [an FAQ](#). They include transportation assistance programs from the [Older Americans Act](#) and [Temporary Assistance for Needy Families \(TANF\)](#).

## Stimulus funding (CARES Act).

In response to the COVID-19 crisis, Congress passed the CARES Act, which provided \$25B in transit funding that can be used at a 100% match for all operating expenses. Transit agencies can use these funds to make up for lost revenue, cover cleaning expenses and PPE, as well as launch new programs to address essential worker transit and meal delivery – including microtransit.

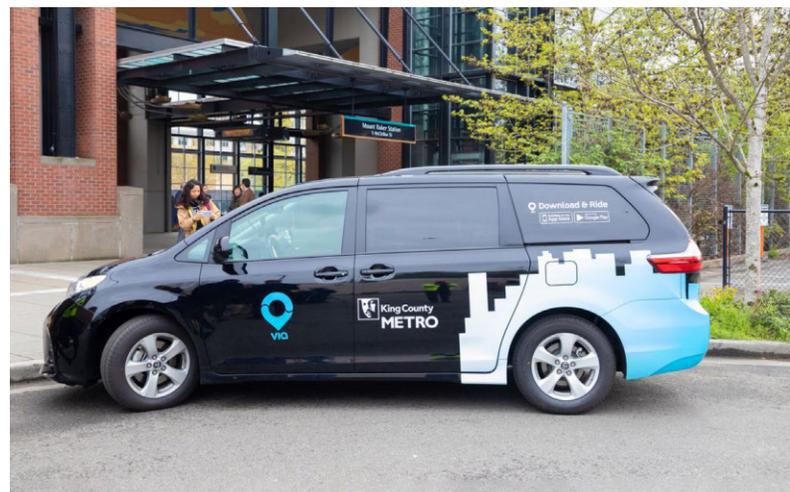
For instance, [Ben Franklin Transit \(BFT\)](#) in Washington State recently lauded a new on-demand transit service that is, in part, paid for with CARES Act funding. You can read more about the [CARES Act funding on our blog](#).

## Federal competitive grants.

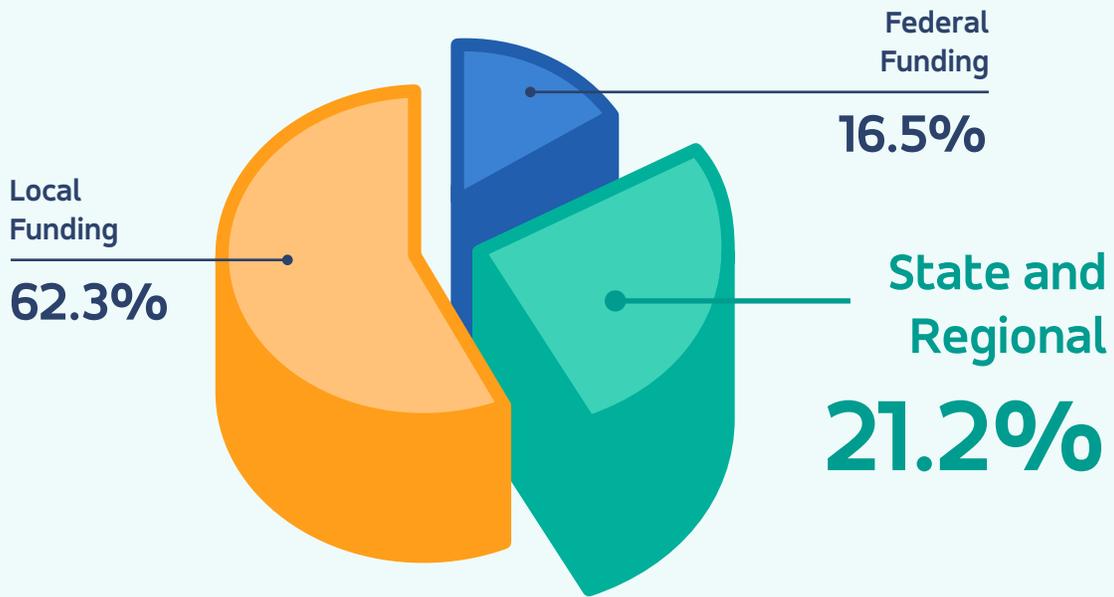
Over the past four years, the federal government has launched a number of innovation grant programs aimed at helping transit agencies and cities across the U.S. experiment with new technology. Via has partnered with a number of cities and transit agencies on successful grant applications through these programs to launch new microtransit services.

[Los Angeles](#) and [Seattle](#) each launched their successful microtransit deployments using federal funds from FTA’s [Mobility on Demand \(MOD\) Sandbox Program](#). The program was later renamed the [Integrated Mobility Program \(IMI\)](#) and provided \$20M to 25 projects in 2020, including microtransit projects in Arlington, TX, Baldwin County, and the Tidewater region of Virginia.

The [Accelerating Innovative Mobility \(AIM\)](#) includes another \$11M to promote “forward-thinking approaches to improve financing, system design and service” with winners announced later this year. Other grant programs less focused on innovative mobility – such as the [Congestion Mitigation and Air Quality Improvement Program \(CMAQ\)](#) and the [Advanced Transportation and Congestion Management Technologies Deployment Program \(ATCMTD\)](#) – have not been used for microtransit to date, but may in the future.



King County, WA – King County Metro



## How state and regional funding comes into play.

While federal funding coughs up only 16.5% of overall public transit funding in the U.S., [state funding accounts for another 21.2%](#).

A collision of factors is leading state and regional governments to rethink how they create sustainable funding for transportation infrastructure. Federal funding for transportation has decreased over the years. Additionally, efficient fuel standards and electric vehicles have meant diminishing returns on state gas taxes. As a result, states have to be creative about their funding sources and mechanisms for innovative transit programs.

## State transportation grants.

Several states offer transportation grants specifically for innovative transit services, while other grant programs focus on policy objectives, like reducing greenhouse gas emissions or increasing access to jobs. In both cases, a proposal to deploy microtransit can make for a compelling application.

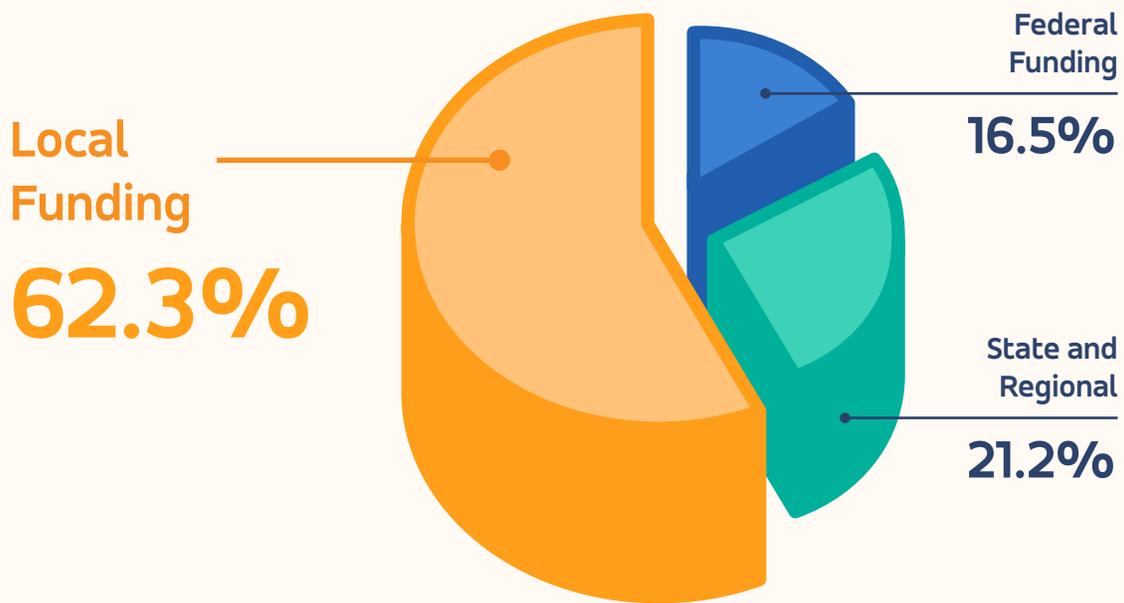
For example, the Rail and Transit Division of Massachusetts Department of Transportation provided [\\$4.2M in grants in 2020](#) for “projects aimed at meeting workforce transportation needs around the Commonwealth.” Through this program, the Worcester Regional Transit Authority (WRTA) in Westborough, MA received a [\\$460,000 grant](#) to pilot a public-private, on-demand shuttle service. California has a number of programs that provide grants for innovative, sustainable, and equitable transit including [\\$17M in grants for Clean Mobility Options](#) and [\\$22M for the Sustainable Transportation Equity Project \(STEP\)](#) from the California Air Resources Board (CARB) and [\\$146M in funding for the Low Carbon Transit Operations Program](#) from CalTrans.

## Congestion pricing, TNC fees, and tolling.

Some state, regional, and local governments are searching for new ways to raise funds for public transit. When New York State passed its congestion fees for taxis and ridehailing vehicles entering Manhattan, it committed to spend some of the revenue on [first/last mile improvements in the outer boroughs](#). The following year, New York State passed comprehensive congestion pricing for [New York City!](#) Once implemented, this program will raise significant funds for fixing and improving transit in the city.

Perhaps the most interesting dynamic tolling scheme in the nation over the last few years has taken place in Northern Virginia on I-66. With money raised from those tolls – which vary depending on the time of day and current conditions – [the I-66 Commuter Choice Program](#) provides funding for expanded transit services and access to transit improvements, including microtransit projects.





## Getting local: funding microtransit with ballot measures and partnerships.

Local funding accounts for the [majority of transportation funding in the United States – a whopping 62.3%](#). Local sources include transit fares, local government budgets, ballot measures, and local partnerships. As local funding sources are constantly in flux, microtransit is an attractive option for cities and transit agencies because it’s so flexible – it can be scaled up and down to meet demand and resource constraints.

Below are a few creative ways to raise local funds.

## Ballot measures.

Transit ballot initiatives provide opportunities for local communities to raise dedicated funding for transportation through voter-approved sales or property tax increases. In 2019, over \$8B in new transportation funding was approved in elections across 80 ballot measures. The majority of funding is for transit, followed by roads.

[LA Metro's measure M](#), passed in November 2016, is expected to generate more than \$120B over the next 40 years. Measure M was structured to invest this funding into outcomes, rather than specific projects. As a result, programs that can achieve reductions in vehicle miles traveled (VMT) can qualify for funding, making well-planned microtransit projects an appealing option for investment.

A number of campaigns for 2020 transit ballot measures planned to include funding allotments for either microtransit or innovative mobility. Unfortunately, due to COVID-19, most of these have been delayed as organizers have understandably decided that this fall is not the right time to ask voters to support even a small tax increase.



Los Angeles, CA – LA Metro



Birmingham, AL – Birmingham On-Demand

## Local partnerships.

Last, but not least, take a look at forming local partnerships. Some local leaders have explored creative alternatives to tax revenues in order to fund their transportation services, and have partnered with key stakeholders in their community – from corporations to foundations to universities – to come together to solve transportation issues.

For example, the City of Birmingham partnered with the [Community Foundation of Greater Birmingham](#) to fund and [launch an on-demand pilot program](#) aimed at providing affordable transit in low-income communities. In other communities that have launched on-demand services, Via is working with our local partners to determine which employers benefit the most from the service so that we can encourage them to support the service financially.

Have other funding ideas we may have missed, or looking for any help with securing funding of your own? [Let's talk!](#)