



FINAL REPORT

TRANSIT FINANCIAL SUSTAINABILITY AND GOVERNANCE STUDY



CITY OF BILLINGS, MONTANA



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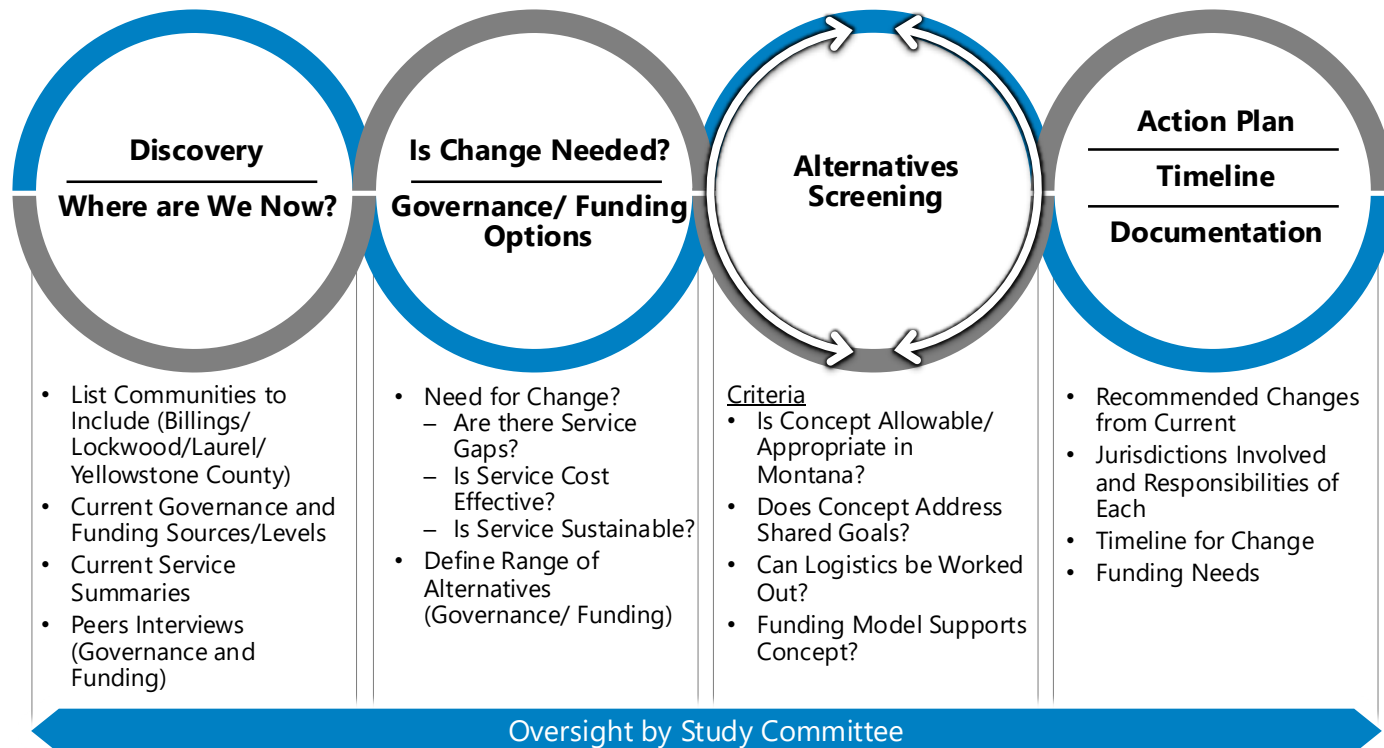
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EXECUTIVE SUMMARY

Billings Metropolitan Transit (MET Transit) undertook this study to examine whether its current governance structure and funding approach are sufficient to sustain transit service over time and support future growth. MET Transit has recently improved service through implementation of the 2022 Transit Development Plan, including a network redesign that increased frequency and reliability. At the same time, the City of Billings and the surrounding area continue to grow, creating interest in additional service within Billings and potential connections to nearby communities of Lockwood and Laurel. The study was initiated to better understand whether MET Transit's existing structure can support these evolving needs and what alternative approaches may be available.

The study also responds to growing financial pressure facing the current municipal model. Recent change to Montana property tax law is expected to constrain future revenue growth, while MET Transit's operating costs are projected to rise faster than available funding. In that context, this study evaluates MET Transit's current governance and funding framework, reviews relevant state law and peer practices, and assesses alternative governance and funding approaches that could improve long-term financial sustainability and better position the transit system to meet community needs.

The following figure shows how the study moved from defining MET Transit's current challenges and opportunities to evaluating options and outlining a practical path forward.



The table below summarizes the recommendations that emerged from this study and organizes them into a practical sequence of short-, middle-, and longer-term actions. Taken together, the recommendations reflect a path that begins with strengthening MET Transit within its current structure, advancing near-term funding opportunities, and laying the groundwork for larger governance and funding decisions as expanded service and long-term financial sustainability remain priorities for the Billings region. This includes potential consideration of a multi-jurisdictional Urban Transportation District (UTD), which is a separate transit governance structure authorized under Montana law that can span multiple jurisdictions and has the option to provide dedicated taxing authority to fund and oversee transit service.

Focus Area	Recommendation	Implementation Timing
Governance	Operate MET as Stand-Alone City Department	Short-Term
	Partner with Laurel to Provide Service	Short to Middle-Term
	Assess Needs/Opportunities/Support for Lockwood Service	Short to Middle-Term
	Develop Multi-Jurisdictional UTD	
	– Establish UTD through Yellowstone County	Middle-Term
	– Develop Governance Parameters	Middle-Term
Funding	– Develop Funding/ Program	Middle-Term
	– Implement UTD	Middle-Term
	Assess Potential to Access CMAQ Funding	Short-Term
	Pursue Use of Other Identified Funding Sources	Short to Middle-Term
	Monitor/Reassess Funding Capacity Relative to Expenses	Short to Middle-Term
	Develop Updated Funding Needs and Tax Levy Amount	Middle to Longer-Term
	Monitor Longer Term Use of CMAQ for Transit	Middle to Longer-Term

Note: Short-Term = 0 to 2 years, Middle-Term = 2 to 5 years, Longer-Term = 5+ years

Overall, this study finds that the future of transit in Billings will be shaped by a series of related decisions about funding, governance, service priorities, and regional coordination. In addition to evaluating governance and funding alternatives, the study also examines MET Transit’s fare structure, and the role fares play in the agency’s financial picture, as well as the broader return on investment that transit provides to the community through access, mobility, and economic value. The remainder of this report presents the analysis, peer review, and stakeholder input that informed these findings and provides the context for the recommendations and implementation considerations that follow.

PART I: INTRODUCTION

Billings Metropolitan Transit (MET Transit) is the public transportation provider for the City of Billings, offering fixed-route bus service and complementary paratransit service that helps residents access jobs, schools, healthcare, and other essential destinations. As Billings continues to grow and travel needs evolve, MET Transit's ability to sustain and improve service depends on having access to funding streams that are clear, stable, and aligned with community priorities. As a division of the city, MET Transit draws from the range of funding options available and used by the city. Currently, the primary local sources of funding are:

- Property tax revenue
- Fares
- State entitlement payments – Portion of the amount redistributed to Billings by the State of Montana
- State TransADE – Assistance to local agencies for service for persons with disabilities and seniors
- Other local tax allocations
- Advertising

Historically, funding has supported MET Transit's ability to operate and implement enhancements such as the recent 30-minute service overhaul (relative to 60-minute service prior), updates to the fleet to reduce maintenance costs, and updates to maintenance/storage/administrative facilities. While current funding streams have supported enhancements within the city, as the region continues to develop and urbanize, consideration of more service outside the city limits has the potential to add demand to many of the funding streams available. Thus, identification of the opportunity and level of alternative funding streams will be critical to being able to provide the range of transit services needed in the region.

State Property Tax Legislation Changes

State tax reform legislation passed in 2025 included changes to the method of establishing the taxable valuation for primary, secondary, and rental properties and instituted a cap on the year-to-year revenue increase allowed to be collected through property taxes. For the first year of the new policies, jurisdictions were able to adjust their mill levy to levels that would retain the pre-legislation property tax revenue, but going forward the cap of half the rate of inflation or a maximum of two percent is in place. Valuations in the last 10 plus years have outpaced the cumulative inflation rate, which allows the mill levy to stay the same or even decline. If the situation changes and valuations do not continue to escalate, this is a complicating factor to revenue generation that is unique to Billings and one other Montana community. If a mill levy increase is needed to offset stagnating valuations, in Billings the increase may require a referendum, while in most Montana communities the elected body of the jurisdiction can increase the levy to maintain property tax revenue levels.

With the cumulative impacts of the range of property tax changes, the City is expecting revenues to be flat in 2026, decline by about 1.8 percent in 2027, and then normalize to an expected annual growth rate of 1.75 percent in 2028 and forward. Year-over-year expenses for MET Transit reflect an increase of approximately 3.5 percent and would be capped at a lower increment. Property tax allocations represent approximately 31 percent of MET Transit's current revenue. Capping the increase would have a relatively small impact in one year to the next; however, over a period of years the cumulative impacts have the potential to affect the

ability to support the desired level of service. One purpose of this study is to look at alternative funding sources to property taxes to offset the impacts of the 2025 legislation.

Service Growth Desires and Organization Constraints

The 2022 Transit Development Plan (TDP) included a network redesign implemented in 2023. The current system consists of 13 weekday routes and six Saturday routes operating in a pulse structure with two primary transfer centers. The redesign improved frequency and reliability and transitioned from flag stops to designated bus stops.

While the TDP has resulted in successful service changes in the past few years, it is understood that the region will continue to grow and demand for more service will increase. As part of this study, the Project Team identified the following additional near- to medium-term service needs:

- Increased frequency along the Heights–Downtown corridor
- Expanded service in West Billings
- Potential fixed-route service to Lockwood
- Enhanced connectivity between Billings and Laurel

Operating cost estimates suggest each additional fixed-route bus requires approximately \$460,000 annually within the current service area and approximately \$550,000 annually when complementary paratransit is required outside existing boundaries. Adding three to six buses could increase annual operating costs by \$1.7 to \$3.3 million. The increment of cost associated with the desired service expansion exceeds the likely anticipated increase in funding available to MET Transit for implementation.

As a division of the City of Billings, MET Transit provides service within the city limits. Growth and the desire for service outside the city adds to the funding analysis. Through the study, concepts considered include each jurisdiction providing its own service, MET Transit entering into service agreements with other jurisdictions, and/or stakeholders creating a new transit entity that would provide service throughout the region.

Final Report Document Organization

This final report summarizes the MET Transit Funding Sustainability and Governance Study, compiling what the study team learned through technical analysis, peer review, and stakeholder input. The report is intended to support informed choices about how MET Transit is structured, how it is funded, and what practical steps could be taken to sustain and strengthen transit service over time. The report is organized into five parts, as described below.

Part I: Introduction

Establishes the purpose of the study, the questions the study is intended to answer, and the overall approach used to evaluate MET Transit's funding and governance needs.

Part II: Current Conditions & Alternatives Analysis

Documents MET Transit's current funding and governance context and the factors shaping future needs, then describes the governance and funding alternatives considered and how each would function in practice.

Part III: Economic Return on Transit Investment

Explains the broader value of transit to Billings and how transit investment can support economic activity, household affordability, and access to opportunity.

Part IV: Stakeholder Input & Peer Review

Summarizes what was heard and learned through engagement with stakeholders and the Study Review Committee, as well as relevant takeaways from peer transit systems.

Part V: Conclusion and Implementation Considerations

Brings the analysis together by summarizing tradeoffs, highlighting key findings, and outlining actionable next steps and considerations for implementation under different governance and funding pathways.



Study Scope

The study is neutral in nature. It does not recommend a specific alternative. Instead, it provides an objective assessment of advantages, risks, fiscal implications, and implementation considerations associated with each option. The scope of this study includes both governance structure and funding authority, recognizing that these issues are interdependent. The scope of work primarily includes:

- Collection and analysis of data that illustrate existing conditions within MET Transit including, but not limited to, resources available, existing plans, current and historic fare structures and revenues, funding mechanisms within the state and region, and current growth and population data.
- Alternative governance model development through data analysis.
- Development of goals and performance criteria to evaluate the alternatives.

The study does not include detailed service design, ridership forecasting, or final financial modeling beyond order-of-magnitude projections necessary to evaluate structural sustainability.

Study Process

This study was informed by multiple sources of data and stakeholder engagement. Key elements of the process included:

- Review of Montana statutes governing municipal bus services, Urban Transportation Districts (UTDs), interlocal agreements, and related financing authorities.
- Analysis of recent state legislation (including HB 231, SB 542, HB 20, and HB 764) affecting property tax valuation, mill levy authority, and service area limitations.
- Evaluation of MET Transit's current operating budget, revenue composition, and projected revenue growth rates.
- Interviews with leadership from comparable Montana UTDs, including Great Falls, Missoula (Mountain Line), Gallatin Valley (Streamline), and Big Sky.
- Discussion with project stakeholders, including the Project Review Committee, regarding regional expansion feasibility and political considerations.
- Integration of findings from the 2022 Transit Development Plan and subsequent network redesign.

Findings from these steps were synthesized to evaluate structural tradeoffs rather than to advocate for a single course of action.

The findings of this study reflect the opinions of the consultant team with input from staff based on available information at the time; recent actions by City Council or other authorities regarding the budgetary, legal, or other processes and may not be reflected.

Key Study Findings

The analysis conducted through this study yields several overarching findings that frame the remainder of the report.

Structural Revenue Constraints

Recent changes in state property tax law, combined with the Billings City Charter mill levy cap, limit MET Transit's ability to adjust property tax revenues administratively. Over the five- to seven-year horizon, projected revenue growth is estimated to lag behind expected wage and operating cost increases, creating structural financial pressure even if service levels remain constant.

Service Expansion Needs

Order-of-magnitude cost estimates indicate that implementing near-term expansion priorities identified, such as increased frequency and westward expansion, would require annual operating increases of approximately \$1.7 to \$3.3 million, plus significant capital investment. Without new revenue authority, these improvements are unlikely to be sustainable.

Governance and Funding Authority

The existing municipal model offers administrative continuity but is constrained by competition within the city budget and by Charter-imposed mill caps without a referendum vote to adjust. Alternative governance structures, particularly a UTD, introduce greater flexibility in boundary design and dedicated funding authority but require voter approval and administrative transition.

Incremental Revenue Tools

Transportation utility fee adjustments, employer partnerships, marijuana excise reallocation, and parking benefit strategies may provide meaningful supplemental revenue. However, individually they are unlikely to fully offset projected structural gaps associated with both inflationary pressures and service expansion.

Regional Coordination

Laurel and Lockwood integration appear to be the most feasible for near-term regional consideration. Broader county participation may be viable with additional outreach. Governance structures that allow flexibility in boundary design may better align with regional growth patterns over time.

Tradeoffs Between Scenarios

The Status Quo model emphasizes stability and incremental adaptation but remains fiscally constrained. A UTD model emphasizes structural flexibility and dedicated funding but introduces formation of risk and administrative complexity. Neither option eliminates tradeoffs; rather, they distribute fiscal, political, and operational risks differently.

Governance Findings

Governance alternatives were evaluated using seven criteria tied to individual goals:

- Sufficient and sustainable revenue
- Political feasibility and public support
- Coordination across jurisdictions
- Efficiency
- Responsiveness to needs and preferences
- Accountability of decision-makers
- Ease of implementation

The findings below summarize how the primary governance pathways perform relative to these goals. These results are visualized below in Figure 1.

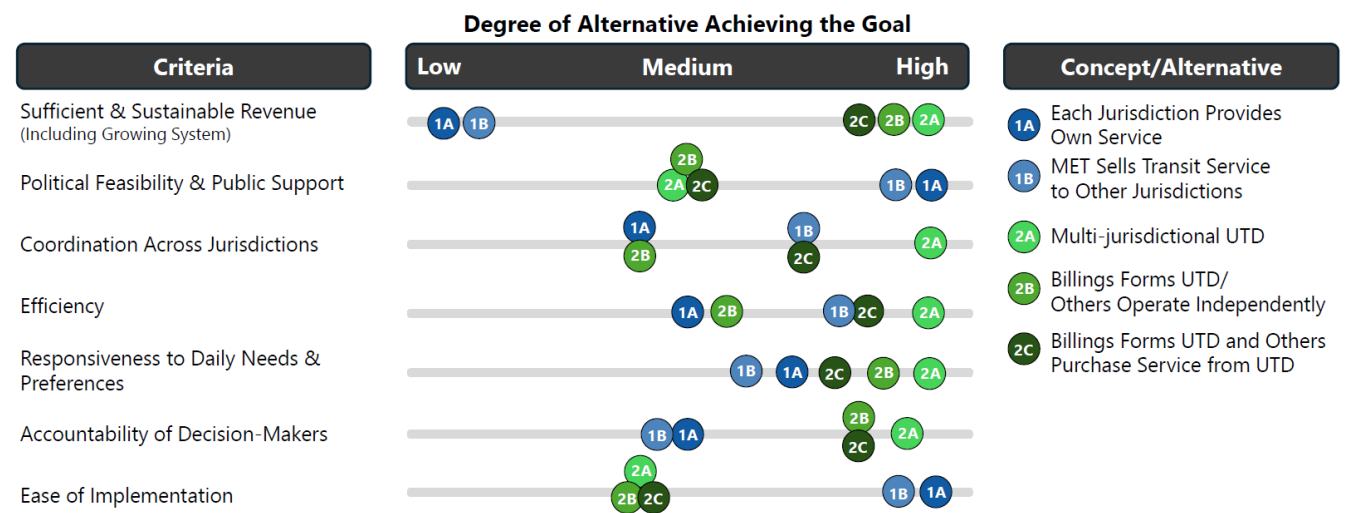
Revenue Sustainability Is the Primary Structural Distinction Between Models. The Status Quo municipal model provides continuity but remains constrained by the City Charter mill levy cap, limiting long-term revenue growth without voter action. A UTD structure provides a dedicated levy authority within district boundaries, offering comparatively stronger alignment with the goal of sufficient and sustainable revenue. Implementation of the UTD concept could include an initial increment budget request that would provide funding for expansion that would be difficult to fund within the constraints of state-imposed year-over-year increases tied to half the rate of inflation and a maximum of two percent.

Coordination Across Jurisdictions and Legal Flexibility Favor a District Model. The municipal model can coordinate through interlocal agreements, but boundaries and taxing authority remain closely tied to the City. A UTD offers statutory authority to span jurisdictions, annex new areas, and align service boundaries with regional growth patterns, supporting coordination and legal flexibility.

Efficiency and Accountability Vary by Structure Rather Than Directionally. The municipal model benefits from established City administrative systems and direct accountability to elected City officials. A UTD provides governance focused solely on transit policy, with a dedicated transportation board accountable under state law. Each model offers different forms of accountability and operational efficiency.

Responsiveness to Community Needs Depends on Governance Design and Funding Capacity. Both models can respond to service needs; however, responsiveness is ultimately tied to available revenue and governance authority. A UTD may offer greater flexibility in aligning service to regional demand, while the municipal model offers direct integration with City planning and infrastructure processes.

Figure 1. Governance Criteria Results Summary by Alternative



Funding Findings

The funding analysis yielded the following conclusions:

Revenue Growth Under the Current Structure Is Projected to Lag Behind Cost Growth.

Flat or declining short-term revenues combined with wage and operating cost increases create structural imbalance over the five- to seven-year horizon.

Primary Revenue Tools Capable of Addressing a Potential Funding Gap Include Property Tax and Congestion Mitigation and Air Quality Program (CMAQ). Property tax mechanisms, whether under the City or through a UTD, and CMAQ funds emerged as the most likely and meaningful ways to improve financial sustainability.

Other Revenue Tools Can Supplement Property Tax and CMAQ Funds. Transportation utility fee adjustments, employer partnerships, excise tax reallocation, parking benefit districts, and joint development strategies can contribute meaningfully but are unlikely to independently close projected funding gaps associated with both inflationary pressures and service expansion.

Raising Fares could Increase Revenue, but Carries Risk. Relative to a peer group in this study, MET Transit has the highest one-way fare but the lowest 31-day pass fare. Increasing either of these rates could increase revenue but would also be offset by ridership reduction and could potentially have equity concerns.

The City Charter Mill Cap Limits Administrative Flexibility. Unlike most Montana municipalities, Billings cannot administratively adjust its transit mill levy beyond the current cap without voter approval. This constraint narrows the range of near-term fiscal responses under the municipal model.

Governance Structure Influences Funding Feasibility. The ability to implement and sustain certain funding tools, particularly a dedicated property tax levy, depends on governance authority. As such, governance and funding decisions should be considered together rather than in isolation.

PART II: CURRENT CONDITIONS & ALTERNATIVES ANALYSIS

This chapter provides detailed analysis supporting the study's findings. It first describes the current transit landscape in Billings and surrounding communities, then outlines likely service growth scenarios in the near-to medium-term planning horizon. It subsequently presents governance and funding alternatives in greater depth along with an analysis of their applicability in the Billings region. Finally, the section concludes with discussion of how transit investment supports economic vitality and community outcomes.

Current Service Summary

The Billings area is currently served by two public transit providers: Billings MET Transit and Laurel Transit. Together, these services form a modest but essential regional transit network focused primarily on local mobility, workforce and medical access, and basic community connectivity.

MET Transit Service

MET Transit operates a fixed-route bus system within the Billings city limits, serving approximately 44 square miles (Figure 2). The system includes 13 fixed routes operating on weekdays and six routes operating on Saturdays. The network operates as a pulse system, with buses arriving and departing simultaneously from two MET Transit Transfer Centers and a common transfer location in the Heights. This structure is designed to facilitate timely connections between routes across the city. Another key element of the system design is having one route operate between downtown Billings and Billings Heights, connecting two Billings Heights circulators.

MET Transit directly operates complementary paratransit service, known as MET Plus, for riders who are unable to use the fixed-route system due to a disability. MET Plus provides origin-to-destination trips for individuals certified as eligible under the Americans with Disabilities Act (ADA). While federal regulations require paratransit service within $\frac{3}{4}$ mile of fixed routes, MET Transit exceeds this requirement by offering MET Plus service to all eligible riders anywhere within the Billings city limits, as time and space allow.

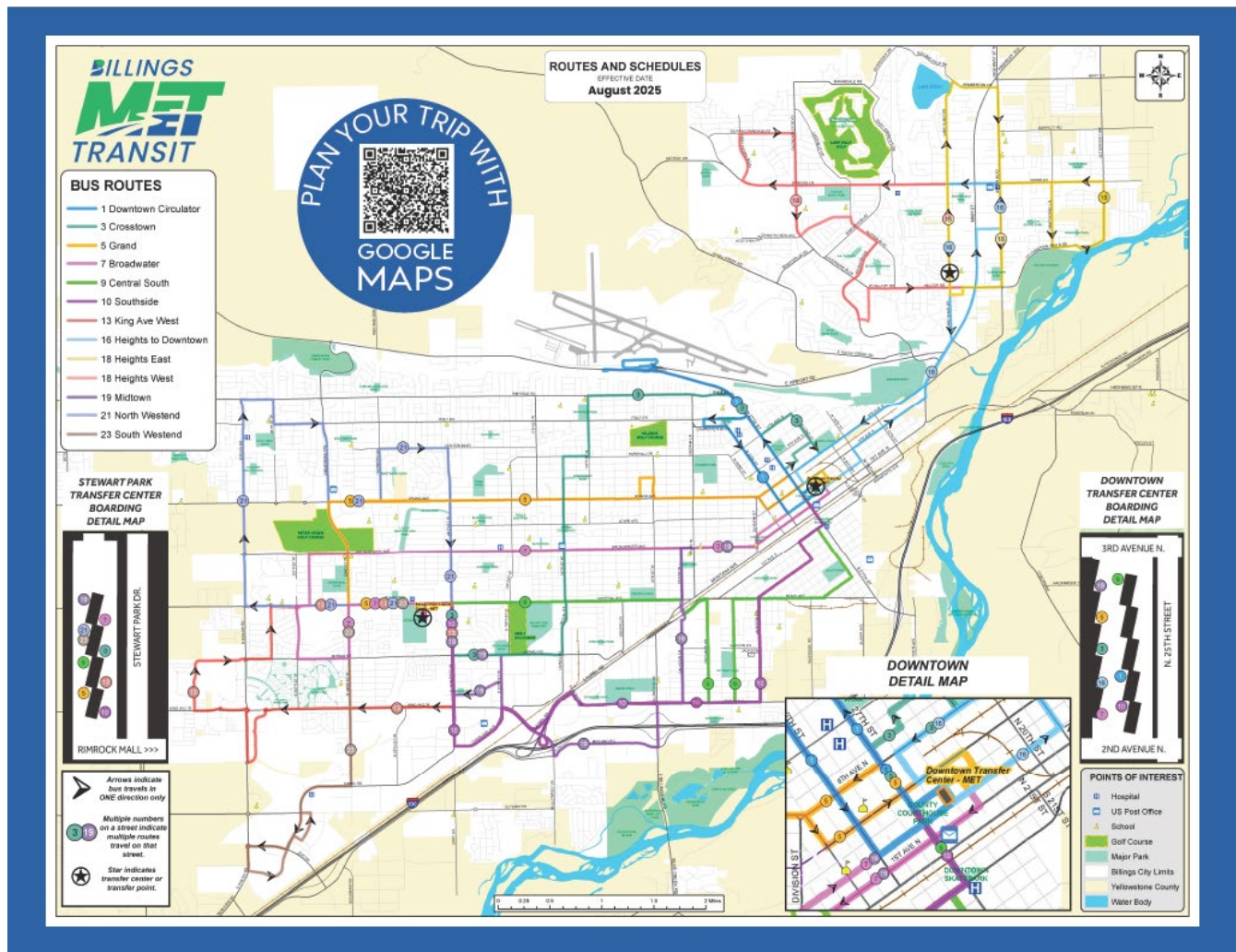
MET Transit's fixed-route fleet consists of 25 buses while the paratransit fleet includes 15 vehicles.

Following completion of the 2022 Transit Development Plan (TDP), MET Transit implemented a comprehensive system redesign in October 2023. The redesign reduced the number of routes from 19 to 13, consolidated service into higher-frequency corridors, introduced 30-minute service on many routes, and transitioned from a flag-stop system to designated bus stops. These changes improved operational efficiency, clarified routing, and strengthened core corridors with higher ridership demand.

Laurel Transit Service

Laurel Transit operates a demand-response, reservation-based service Monday through Friday between 10:00 a.m. and 4:00 p.m. Service is provided within the Laurel city limits and extends up to one mile beyond the municipal boundary. In addition to local trips, Laurel Transit operates a weekly Tuesday connection to Billings, primarily supporting medical appointments and essential errands. Service is available to the general public but primarily serves older adults and individuals with disabilities.

Figure 2. Billings MET Transit Fixed-Route Service Map



The Laurel Transit fleet includes three vehicles, which are owned by the City of Laurel. Allies in Aging provides the drivers and other administrative and funding support.

While Laurel's service model differs from MET Transit's fixed-route structure, the two systems are functionally connected through regional travel patterns. As development continues between Billings and Laurel, coordination between the two services may become increasingly relevant within the five- to seven-year planning horizon.

Figure 3. Laurel Transit Vehicle



Potential Future Transit Service Expansion

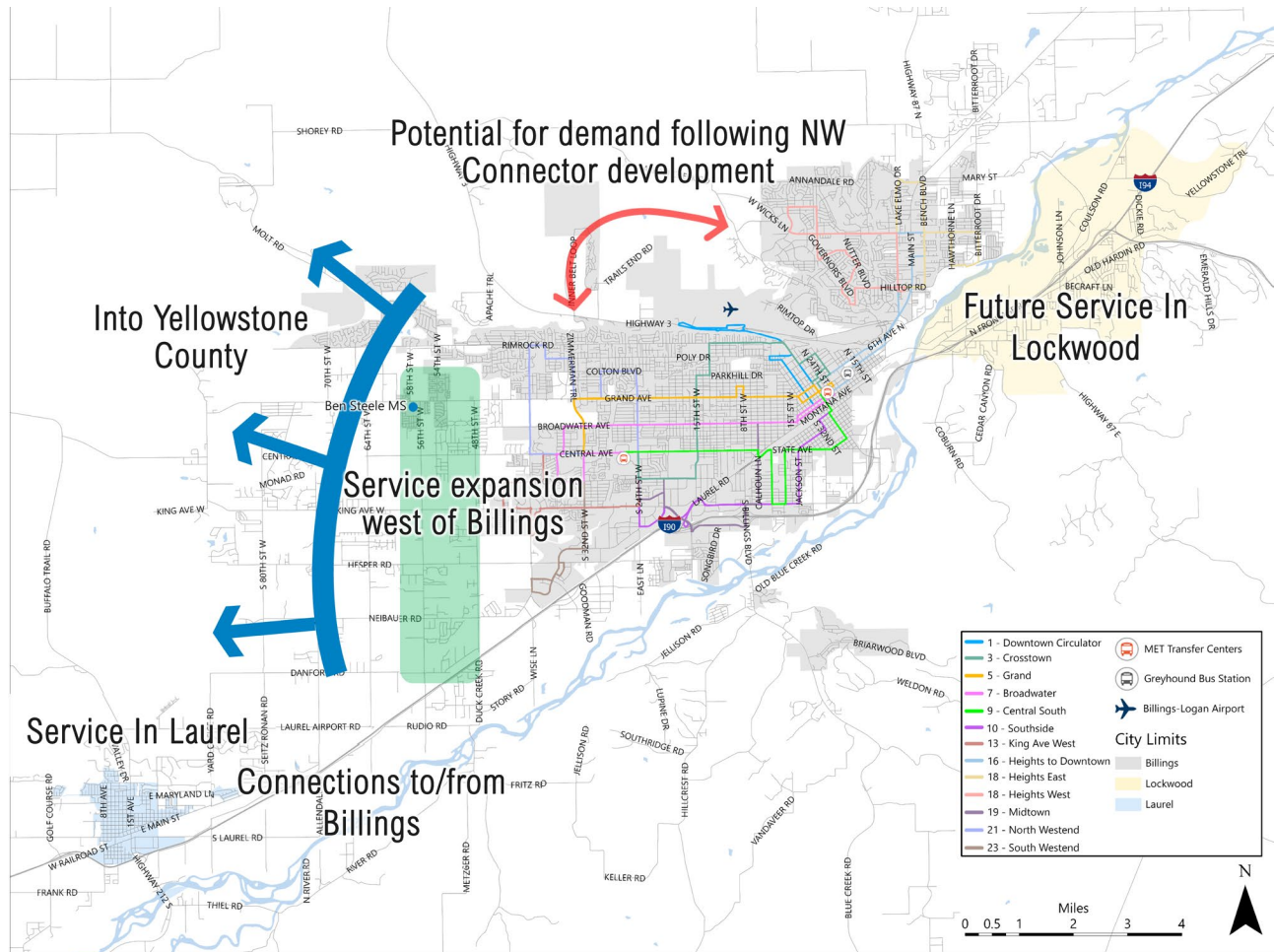
The Project Team and Project Review Committee analyzed the most likely service expansion needs in the near- to medium-term, which are summarized below.

Likely Service Expansion in and Around Billings

Analysis of prior planning efforts, staff input, and public feedback indicates several likely areas for future service expansion, including increased frequency on high-ridership corridors, westward expansion within Billings, and improved connectivity to nearby communities such as Lockwood and Laurel, as shown in Figure 4. While Lockwood is already included in the Billings Urban Area, Laurel is not yet included.

Additionally, a public mapping exercise was conducted at the 34th Annual Strawberry Festival and via an online survey to identify travel destinations and service interest, which aligns with the findings in Figure 4. Additional details on the mapping exercise are shown in [Part IV: Stakeholder Input & Peer Review](#).

Figure 4. Thematic Representation of Demand for Service Expansion in the Future



Cost Implications of Expanding Service

Expanding fixed-route service requires both operating and capital investment. Based on recent cost trends, each additional fixed-route bus represents a substantial annual operating commitment, with complementary paratransit further increasing costs outside the current service area.

Assuming three to six additional buses are added to support near- to medium-term service expansion, annual operating costs are projected to increase by \$1.7 million to \$3.3 million, representing a 20–40 percent increase over the FY 2026 operating budget. Additionally, each new 35-foot fixed-route bus costs between \$532,000 and \$1 million, depending on propulsion type (diesel or electric). Paratransit vans range from \$124,000 to \$157,000 per vehicle.

What Happens if Laurel Joins the Urban Area?

Currently, the Billings Urban Area includes Lockwood, but it does not include Laurel. Determination of urban area boundaries takes place with each Decennial Census. Based on the 2020 Census Urban Area criteria, qualifying census blocks within 1.5 miles of an existing urban area boundary can be added into the urban

area if they meet all the criteria for inclusion.¹ In the 2020 Census, qualifying blocks in Laurel were not included in the Billings Urban Area because the “jump” between qualifying blocks in the Billings Urban Area and Laurel was greater than 1.5 miles.

Meanwhile, there is new development planned within the 1.5 mile “jump” radius of the current Billings Urban Area, as shown in Figure 5. If this development or other development takes place, it is possible that Laurel will be included in the Billings Urban Area in the 2030 Census.

If Laurel became part of the federally designated urban area, Billings would remain the FTA-designated recipient and Section 5307 funds would need to be allocated across both communities. This would require new agreements governing funding distribution, service responsibilities, and local match contributions.

The Section 5307 funding formula for urban areas under 200,000, which includes Billings, is based on the population and the population density of the urban area. The net increase in population due to adding Laurel to the urban area would likely increase Section 5307 funding slightly. Notably, the criteria for inclusion in an urban area and the formula for Section 5307 funding can change over time. There is no guarantee that there would be an increase in Section 5307 funding if these criteria and formulae changed.

Additionally, if Laurel became part of the Billings Urban Area, transit service within Laurel would generally shift from eligibility under Section 5311 (rural) to eligibility under Section 5307 (urbanized), because Section 5311 funds are intended for areas outside urbanized areas. However, Section 5311 could still be used for any service Laurel Transit provides in surrounding nonurbanized areas and for connections that primarily serve rural areas, with Section 5311 funds applied only to the nonurbanized portion of service.

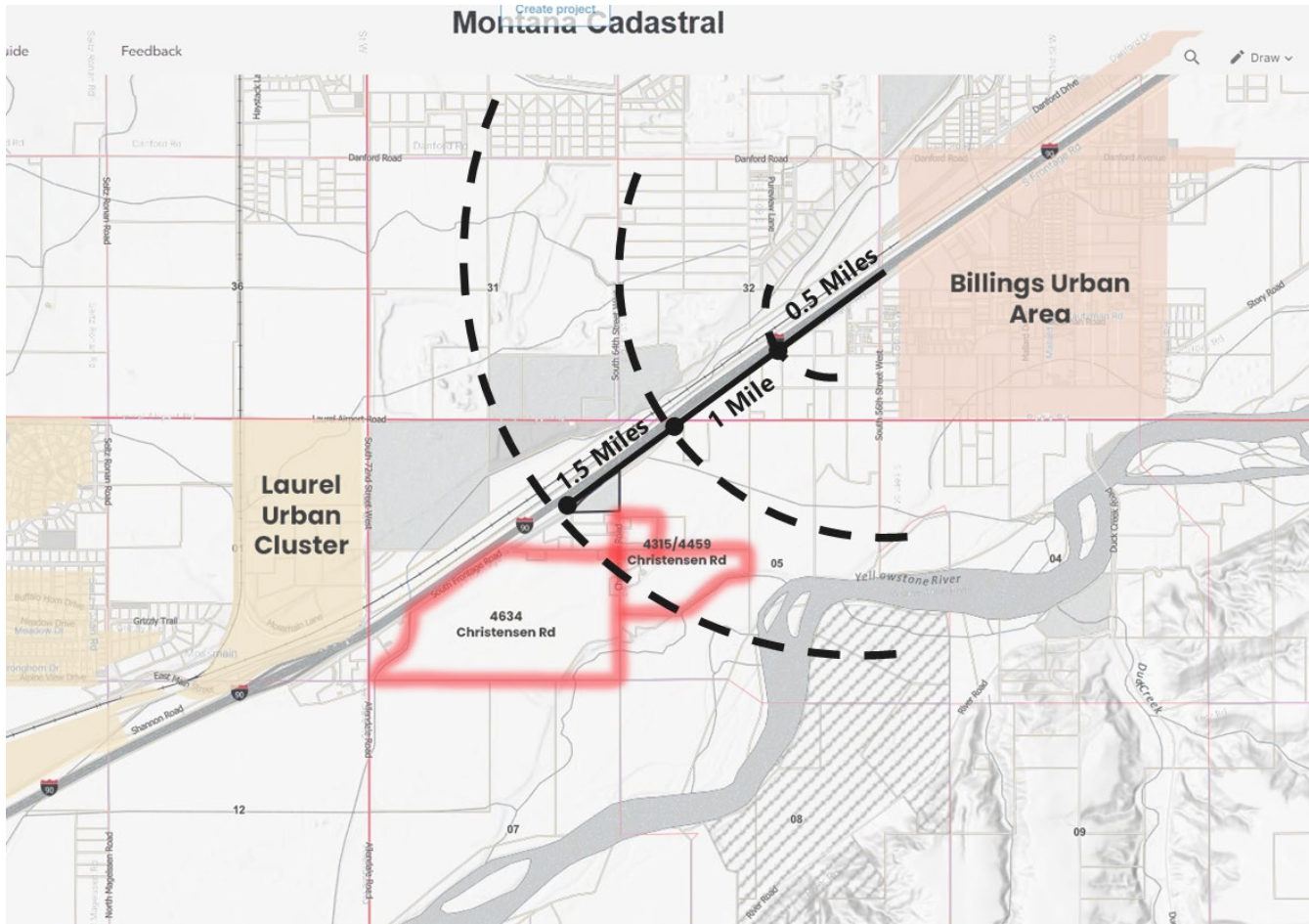
Governance Alternatives Evaluation

MET Transit currently operates as a city department function rather than a separate, independent transit agency. The transit system is organized as a division within the City of Billings’ Aviation and Transit Department, which houses MET Transit’s day-to-day management and administrative responsibilities. From a governance standpoint, policy direction and ultimate decision-making authority rest with the City’s elected leadership, the Mayor and City Council.

Because MET Transit is housed within city government, the City also retains key external roles associated with federal transit funding. Under the current structure, the City of Billings continues to serve as the FTA Section 5307 designated recipient for the urban area, maintaining responsibility for managing and distributing these federal formula funds in accordance with applicable requirements.

¹ <https://www2.census.gov/geo/pdfs/reference/ua/Census-UA-CritDiff-2010-2020.pdf>

Figure 5. Billings Urban Area and Planned Development Within 1.5 Miles in Laurel

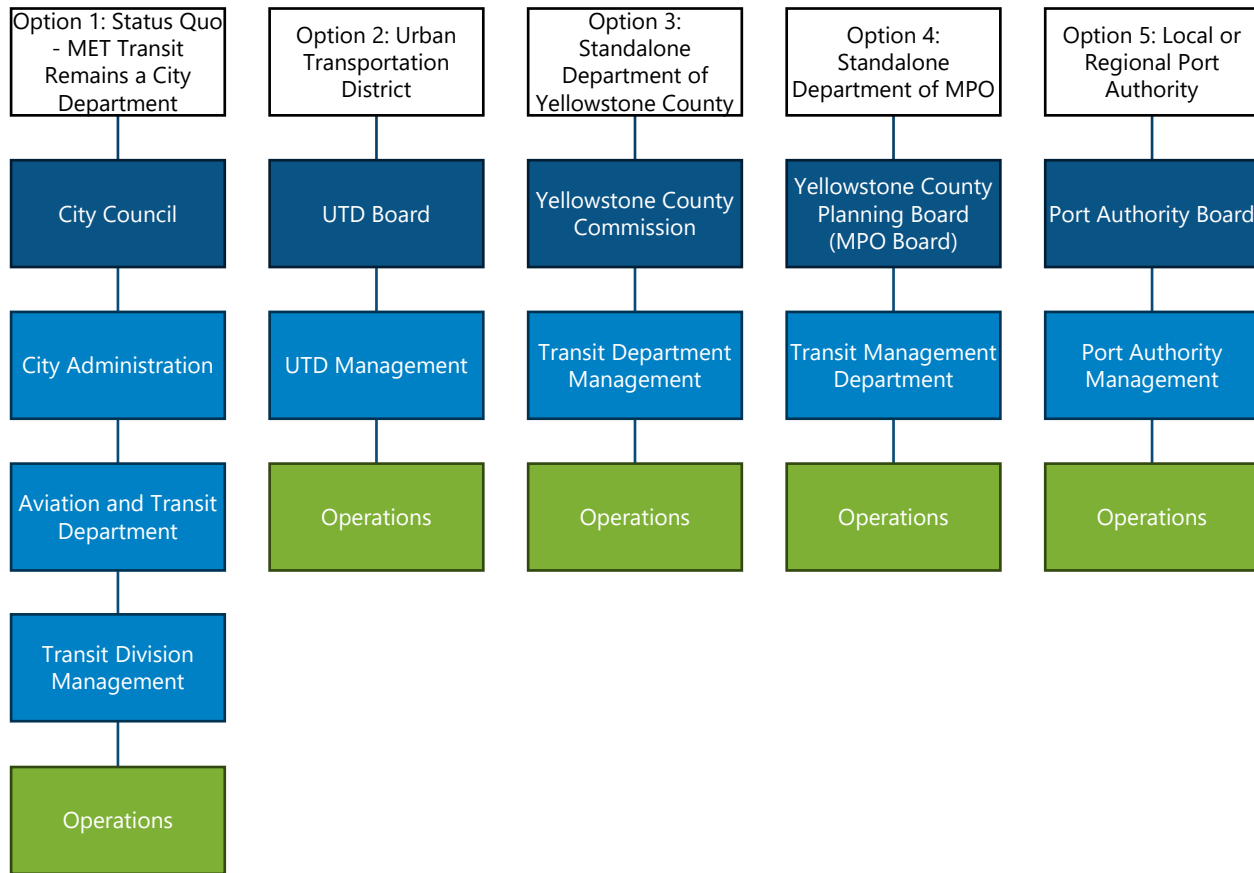


To begin the evaluation of alternative governance models, the Project Team first identified all the possible ways in which transit service is authorized to be governed in the State of Montana. The following five potential governance structures were initially considered:

- Option 1: Status Quo – MET Transit Remains a City Department
- Option 2: Urban Transportation District (UTD)
- Option 3: Standalone Department of Yellowstone County
- Option 4: Standalone Department of the MPO
- Option 5: Local or Regional Port Authority

Figure 6 shows the layers of decision-making authority for each of the five options. In each option, the ultimate decision-making body is shown in dark blue, while intermediate management is shown in light blue. As a division of the City's Aviation and Transit Department, the status quo option includes several layers of management and administration between operations and the City Council. Each of the other four options shows fewer layers of management, which could lead to streamlined governance processes.

Figure 6. Governance Alternatives



Evaluation Phases

With the comprehensive list of alternatives available, the Project Team went through a process of narrowing down options in the following phases:

- Phase 1: Screening for statutory feasibility and administrative practicality.
- Phase 2: Evaluation for alignment with criteria and goals.
- Phase 3: Recommended phased approach of alternatives.

The process and results of each phase are described in the following sections.

Phase 1: Screening for Statutory Feasibility and Administrative Practicality

Phase 1 looked at each of the governance options and considered the following questions:

- Is this governance option statutorily feasible?
- Is this governance option administratively practical and politically viable in the Billings region?
- Does this governance option provide clear advantages over the others in terms of achieving financial sustainability?

Through these questions, three of the options were screened out, as described below.

Option 3: Standalone Department of Yellowstone County

While future service expansion could include unincorporated portions of Yellowstone County, transferring transit governance to the County would likely dilute Billings' service focus. County administration would be expected to distribute service geographically, potentially reducing service levels within Billings to fund lower-density areas. There is also no indication of County interest in assuming transit governance responsibilities.

Option 4: Standalone Department of the MPO

The Billings MPO is a planning body administered by City staff. Transitioning transit operations to the MPO would not provide meaningful structural or financial benefits and would likely require continued reliance on City administrative systems.

Option 5: Local or Regional Port Authority

Port Authorities in Montana are designed primarily to advance commerce and economic development through transportation infrastructure. While transit supports economic development, it is not a core statutory purpose of a Port Authority, and no examples in Montana exist where a Port Authority operates public transit. The model offers no clear advantage over a UTD and may be more appropriate for capital facility development than operations.

Phase 2: Evaluation for Alignment with Criteria and Goals

Following the Phase 1 screening, the Project Team established a set of criteria and goals to provide a consistent framework for evaluating the remaining governance alternatives, as shown in Figure 7. Phase 2 highlights how each governance model would perform in relation to the outcomes the City, MET Transit, and stakeholders are seeking to achieve.

Development of Sub-Options

In Phase 2 of the evaluation, the Project Team zoomed in closer to Options 1 and 2 to identify a few sub-options that could be pursued under these umbrellas.

Option 1: Status Quo – MET Transit Remains a City Department

Under this option, MET Transit would continue operating as a division within the City of Billings Aviation and Transit Department. The Mayor and City Council would remain the governing body, and the City would continue serving as the Federal Transit Administration (FTA) Section 5307 designated recipient.

- **Option 1A: Independent Local Operations:** Laurel, Lockwood, or other areas could operate separate transit services. While this preserves local autonomy, it risks duplication of administration, fragmented branding and service standards, and increased federal compliance complexity, particularly if Laurel becomes part of the Billings Urban Area and transitions from §5311 rural funding to §5307 urban funding.
- **Option 1B: Purchase of Service from MET Transit:** Under this sub-option, surrounding jurisdictions would purchase service from MET Transit through formal agreements such as interlocal agreements, consolidation agreements, or multi-jurisdictional service districts. This allows coordinated operations while preserving local funding responsibility.

Figure 7. Governance Model Analysis Criteria and Goals



Option 2: Urban Transportation District (UTD)

A UTD is a special-purpose unit of local government established under Montana Code Annotated Title 7, Chapter 14, Part 2.² Its purpose is to “supply transportation services and facilities to district residents and other persons,” allowing multiple jurisdictions, including cities, towns, and counties, to collectively plan, fund, and operate public transportation. Unlike a municipal bus service, a UTD is designed to provide regional coordination and funding across jurisdictional boundaries. They can provide any combination of fixed-route, paratransit, and demand-response services.

A UTD functions as an independent governmental and financial entity with the authority to own property, enter into contracts, and levy a property tax within its boundaries to support operations, capital improvements, and debt service. It is governed by a transportation board that represents participating jurisdictions, giving the district a regional decision-making structure. This arrangement enables long-term planning and resource sharing between neighboring communities, helping to align service decisions with regional growth and travel patterns.

According to the Montana Department of Transportation, UTDs serve the critical role of “creating a steady funding source for local governments to finance a variety of transportation services and facilities” and allow several municipalities and counties to jointly fund and operate a unified transit system.³ The district may contract with municipalities, counties, or private providers to deliver services, offering flexibility in how operations are structured.

² https://archive.legmt.gov/bills/mca/title_0070/chapter_0140/part_0020/sections_index.html

³ <https://www.mdt.mt.gov/research/toolkit/m1/ftools/fd/utd.aspx>

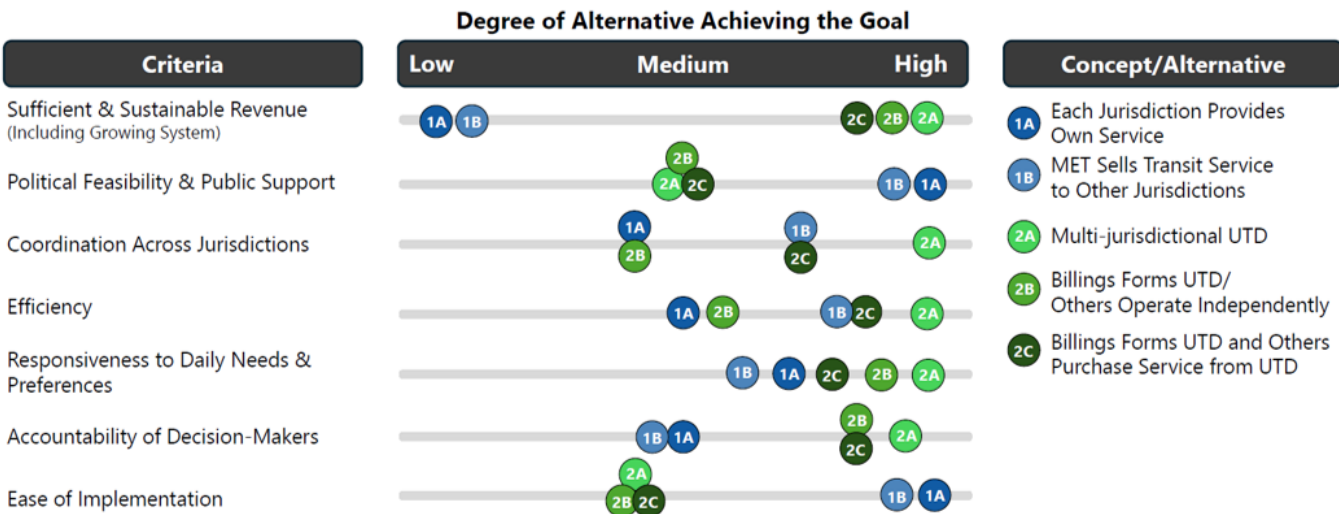
Under the UTD umbrella, there are three sub-options for how a UTD could be used in the Billings region:

- **Option 2A: Multi-Jurisdictional UTD:** Includes Billings and surrounding communities in a single district with unified governance and tax base.
- **Option 2B: Billings-Only UTD:** Establishes a district for Billings while neighboring jurisdictions remain independent.
- **Option 2C: Billings UTD with Purchased Service:** Surrounding jurisdictions purchase service from the UTD through formal agreements.

Phase 2 Evaluation Results

With the sub-options identified, the Project Team evaluated each against the criteria and goals established in Figure 7. Each sub-option was assessed for the degree to which it achieves each of the seven goals. The results are shown in Figure 8 below. The Option 1: Status Quo – MET Transit Remains a City Department group is shown in blue, while the Option 2: Urban Transportation District (UTD) group is shown in green.

Figure 8. Phase 2 Evaluation of Sub-Options



While the sub-options consider the various ways in which each Option 1 and Option 2 can be deployed, for the most, for each goal, the sub-options are clustered together. Table 1 provides additional detail on the evaluation results by criteria and option.

Table 1. Phase 2 Evaluation by Criteria and Option

Criteria	Option 1: Status Quo	Option 2: UTD
Sufficient and Sustainable Revenue	Revenue remains subject to the City Charter mill levy cap and municipal budget processes (e.g., reallocation of State Entitlement funds by City Council). While voter-approved adjustments are possible, long-term sustainability is constrained relative to an independent district.	A UTD provides dedicated levy authority within district boundaries, supporting stronger alignment with long-term revenue sustainability goals, subject to statewide levy growth limits. Peer interviews in Great Falls and Gallatin Valley emphasized that dedicated mill levies improved long-range planning stability, though increases still require careful public communication.
Political Feasibility and Public Support	Political feasibility is comparatively strong because no new governmental entity is created and no formation election is required.	Formation requires voter approval and public engagement, increasing political complexity relative to the Status Quo. Peer agencies noted that tailored messaging and early coordination with county officials were critical to formation success.
Coordination Across Jurisdictions	Coordination can occur through interlocal agreements or purchase-of-service arrangements; however, taxing authority and governance remain City-centered.	A UTD boundary may be drawn to include any area, without the need to follow any existing political boundaries. The multi-jurisdictional UTD allows for the highest level of coordination across jurisdictions.
Efficiency	The model benefits from established City administrative systems, reducing duplication of HR, finance, and legal functions.	A multi-jurisdictional UTD can provide very efficient service by acting as the FTA designated recipient for the region, with service planning decisions made at a regional level and all administrative functions consolidated. Some administrative functions could still be contracted to the City of Billings to further reduce duplication.
Responsiveness to Needs and Preferences	Direct integration with City planning and public works supports coordination of transit with infrastructure and land use decisions. However, service expansion remains limited by revenue capacity.	As a standalone entity, the UTD can be very responsive to the needs and preferences of the community. Under this model, there is no competition for resources among departments within the city budget.
Accountability of Decision-Makers	Transit policy decisions remain directly accountable to elected City Council members.	Governance is provided by a transportation board, which may be appointed or elected depending on district design, creating a transit-focused accountability structure under state law.
Ease of Implementation	Implementation requires no structural change. Option 2B could proceed immediately through policy adjustments or agreements.	Starting a UTD will require significant work for all parties involved over a period of several years, including hiring staff to replace current city positions, transferring assets, and no guarantee a mill levy would pass.

Phase 3: Recommended Phased Approach of Alternatives

Following Phase 2 of evaluation, the Project Team and the Project Review Committee developed a short-term and long-term path forward (Figure 9). The short-term recommendation is to pursue the most feasible options, while the long-term recommendation is to work toward what is best for regional growth.

While there are benefits and drawbacks associated with all the options, it became apparent to the group that MET would continue to operate as it does now in the near term (Option 1A). At the same time, it is feasible to establish service agreements with neighboring jurisdictions, which will have regional benefits, as described by Option 1B.

Still, the Project Team recognizes that status quo will not be sustainable in the long term. To continue to provide the current levels of service, let alone increase service, while staying financially sustainable, MET will need to transition to a UTD in the future. There was consensus within the Project Review Committee that the multi-jurisdictional UTD is the gold standard for the region due to it having a relatively high degree of meeting the goals, especially in the areas of sufficient and sustainable revenue and coordination across jurisdictions. For this reason, Options 2B and 2C should only be considered if option 2A becomes unattainable when working toward implementation in the future.

Figure 9. Phased Implementation Approach



UTD Formation Process Overview

A UTD can be created under Montana Code Annotated § 7-14-2⁴ through either a voter petition (20 percent of registered voters within the proposed district signing the petition) or a county commission resolution. The county commission holds a public hearing, and, if the signatures are found sufficient, places the question before voters. A majority vote is required to formally establish the district.

HB 764 (2025), also allows property owners to withdraw from a district if transit service has not been provided within 1.5 miles of their property in the last five years.⁵ District boundaries must be contiguous, although they do not need to follow any other political boundary and can be drawn from property to property.

Once approved, the county commission appoints or oversees the election of a transportation district board, which governs the district, adopts budgets, and oversees contracts and operations. The district may be established without an initial tax levy; a mill levy can be added later through a separate voter election once

⁴ https://archive.legmt.gov/bills/mca/title_0070/chapter_0140/part_0020/sections_index.html

⁵ <https://legiscan.com/MT/text/HB764/id/3217740>

the district is operational and service needs are defined. This flexibility allows communities to form a district, organize governance, and coordinate service before asking voters to commit new revenue.

Governance Alternatives Evaluation Summary

The Project Team and the Project Review Committee identified all five transit governance options available in the state of Montana and then worked together through a three-phase evaluation process to reach a recommended phased approach of alternatives.

During the first phase of evaluation, three options were ruled out as they did not pass a screening for statutory feasibility and administrative practicality. During the second phase of evaluation, the Project Team looked more closely at the remaining two options to develop several sub-options that could be pursued. The sub-options were all evaluated against seven criteria and goal statements to determine the degree to which each sub-option would achieve the goal.

Following that process, the team transitioned to the third review phase in which the group developed a recommended path forward. In the short term, it is recommended that MET Transit continue with the most feasible options, namely continuing with status quo in Option 1A while also pursuing service agreements in Option 1B. In the long term, it is recommended that MET Transit pursue the option that will result in the best regional growth. Option 2A: Multi-Jurisdictional UTD allows for the most integrated, sustainable, efficient, and responsive transit service for residents.

The multi-jurisdictional UTD model introduces greater structural flexibility and a dedicated funding platform capable of supporting long-term expansion. While formation requires voter approval and administrative transition, it provides a governance structure better aligned with regional growth and long-term service sustainability. Based on statutory authority, fiscal flexibility, and regional scalability, the UTD model represents the most beneficial structural alternative to the status quo.

Funding Alternatives Evaluation

The Project Team evaluated all the potential mechanisms available for funding transit operations in Montana. An interim summary of these findings is included in Appendix A: Funding Enhancement Alternatives Review Technical Memorandum. The final analysis of these alternatives is included below. Additionally, the project team conducted an analysis of MET Transit's fare levels, fare structures, and fare payment systems relative to peers to understand how these could be modified to address MET Transit's long-term financial sustainability goals.

Background and Current Funding Structure

MET Transit is in a period of potentially stagnating property tax funding levels that will limit the agency's ability to implement service expansion/enhancement to better serve the region. Thus, MET Transit is completing a review of alternatives to property taxes (in addition to fares and advertising revenue) as the source of local funding. The 2025 State of Montana property tax reform bill that lowered property tax revenue from primary residences and shifted more of the burden to short-term rentals and second homes, has the potential to impact revenue for MET Transit due to a unique City Charter limit on adjusting the mill rate. While most municipalities in the state can adjust the mill levy through an action by the council, in Billings the Charter requires a referendum to adjust the mill levy.

The 2025 legislation allowed for a one-time mill adjustment to fill the revenue gap created by valuation adjustments; however, any need to adjust the mill levy going forward would require a vote of the people. Because of these changes, the City is expecting revenues to be flat in 2026 (relative to 2025), decline by about 1.8 percent in 2027, and then normalize to an expected annual growth rate of about 1.75 percent in 2028 and onwards. The City typically plans for inflation to increase costs by about 1.5-2 percent each year, and wages are based on a contract with the local bargaining unit, which is renegotiated regularly. Wages are expected to increase 3.5 percent next year based on the current contract. As a result, MET Transit is expecting a short-term budget shortfall followed by annual cost increases that will outpace revenue growth.

Historically, MET Transit has received revenue from three main funding sources:

- **Federal Transit Authority Operating and Capital Grants:** These include both formula funding as well as competitive grants. In 2026, this source makes up about 40 percent of total revenues. While federal funding is not anticipated to be impacted by the property tax changes, transportation funding will be re-authorized in 2026, and future funding levels are unknown.
- **Local Taxes:** In 2026, MET Transit is anticipating about \$3.7 million in local tax revenue, with \$2.7 million – about 35 percent of the total budget – coming from property taxes. This percentage could be expected to decline over the coming years as tax revenues stagnate and costs continue to increase.
- **Direct Revenues:** Direct revenues include fares, advertising, and other forms of fees paid directly to the transit agency. In 2026, MET Transit is anticipating fares to make up only about seven percent of total revenues, with advertising and parking fees at the downtown transit center contributing another three to four percent, for about 10 percent of the total operating budget coming from direct revenues.

Other minor sources of funding such as state grants, fees for service and the sale of surplus equipment make up the remaining revenue.

Funding Tools Evaluated

The following funding tools were evaluated. Below includes detail on what the funding tool is and the viability of using it to support transit in Billings. Each of the tools was also evaluated in four areas:

- Applicability to transit in Billings.
- Potential funding generated.
- Complexity/viability.
- Ability to be used for transit in Montana.

Results are shown in Table 3 (page 33).

Urban Transportation District Levy

In Montana, an [Urban Transportation District](#) (UTD) is a special taxing district that provides the ability to raise revenue directly for transit services. Districts are created by counties and approved through voter referendums. Districts may extend across city and county boundaries and provide the ability to levy property taxes to all properties within the specified boundaries.

Establishing a UTD is likely a viable option for MET Transit but would need to be voter approved as a referendum. Five other UTDs have been established in the state, demonstrating their political feasibility and record of success. Great Falls, Missoula, and Dawson County are the three UTDs that currently levy the property tax option. Big Sky and Gallatin Valley UTDs were established without an initial property tax levy; however, each has expressed that they could consider the option in the future.

By establishing a UTD, MET Transit may increase property taxes outside of the city's mill levy cap in order to provide adequate revenues for transit service. However, taxes levied through a UTD are still subject to the states' mill levy increase cap, which limits annual total tax revenue increases to the average level of inflation over the past three years (or a maximum of four percent).

This means that property tax revenues through a UTD are subject to a maximum increase of four percent annually when inflation is high, with the long-term average annual increase likely to be closer to two or three percent. By contrast, property tax revenues levied through the city are subject to the mill levy cap, meaning revenues are likely to increase by approximately the rate of taxable value increase, which historically has been about 2.5 percent per year. If both taxable value and inflation continue to increase at approximately the historic average rates, the difference in tax revenue is likely to be within a few percentage points.

As an illustration of the potential revenue impacts of transitioning to a UTD, a hypothetical projection of five years of future revenues is shown in Table 2. The revenue impacts of the mill levy cap are expected to compound over the five years, leading to a potential revenue gap. These projections are illustrative based on a variety of assumptions and the calculation methods [provided by the State of Montana](#), and do not reflect actual revenues. Additionally, the taxbase could be increased if the UTD were to include more areas outside the current Billings service area.

Viability: High, subject to voter approval and governance transition.

Congestion Mitigation and Air Quality Improvement (CMAQ)

CMAQ is a federal program that provides funding to areas in nonattainment or maintenance for ozone, carbon monoxide, and/or particulate matter. Funds may be used for any transit capital expenditure otherwise eligible for FTA funding as long as they have an air quality benefit.

In addition to capital projects, a state may obligate CMAQ funds for operating costs under Chapter 53 of Title 49⁶ in an eligible area, and the statute specifies no imposed time limitation when the operating assistance is for a transit system located in an urbanized area of 200,000 or fewer, which includes Billings.

The Project Review Committee expressed broad support for a CMAQ-funded transit operations strategy once the bypass project is complete. One proposed concept could use approximately \$400,000 annually for existing transit operations, and an additional \$250,000 annually for a Lockwood service pilot. The pilot would include a sunset provision (e.g., three years) to reassess performance. Prior to utilizing CMAQ for Transit Operations, the funding source would need to be reflected as an option for transit use in the Long Range Transportation Plan (LRTP) and included in the local Transportation Improvement Plan (TIP).

Viability: High potential pending approval.

⁶ <https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title23-section149&num=0&edition=prelim>

Table 2. Five-Year Revenue Generation Comparison - City Property Tax Versus UTD Tax Option

Scenario	Previous Year Property Tax Revenue ⁷	3-year Inflation Average ⁸	New Adjusted Property Tax Revenue ⁹	Maximum Mills (Calculated) ¹⁰	Actual Mills ¹¹	Revenue Based on Mills	Difference
Year 1							
Transit as City	\$2,680,062	4%	\$2,787,264	11.83	11.71	\$2,758,436	
Transit as UTD	\$2,680,062	4%	\$2,787,264	11.83	11.83	\$2,787,264	\$28,828
Year 2							
Transit as City	\$2,758,436	3%	\$2,841,189	11.77	11.71	\$2,827,396	
Transit as UTD	\$2,787,264	3%	\$2,870,882	11.89	11.89	\$2,870,882	\$43,485
Year 3							
Transit as City	\$2,827,397	2.5%	\$2,898,082	11.71	11.71	\$2,898,081	
Transit as UTD	\$2,870,882	2.5%	\$2,942,654	11.89	11.89	\$2,942,654	\$44,572
Year 4							
Transit as City	\$2,898,082	2.5%	\$2,970,534	11.71	11.71	\$2,970,533	
Transit as UTD	\$2,942,654	2.5%	\$3,016,221	11.89	11.89	\$3,016,220	\$45,686
Year 5							
Transit as City	\$2,970,534	2.5%	\$3,044,797	11.71	11.71	\$3,044,797	
Transit as UTD	\$3,016,221	2.5%	\$3,091,626	11.89	11.89	\$3,091,626	\$46,829

Street Maintenance District Assessments

Street Maintenance Districts are special assessment areas levied by the City to support transportation improvements. Billings currently has two Street Maintenance Districts, with funding from these assessments dedicated to street upkeep and capital improvements. In 2026, those two assessments combined are estimated to generate \$17.8 million. One district includes the downtown area and the other is community-wide and are used to fund activities such as snow plowing and sanding, pothole patching, street sweeping, signing and striping, and repairs.

While the fees are paid as part of owner's property tax bill, the year-over-year increment is not subject to the tax levy limit applied to property taxes. Assessments have historically been adjusted based on rising costs, but the Council directed the city not to increase residential fees in 2026. If politically viable, dedicating revenue from a small rate increase to the assessments could benefit the MET system by supporting transit capital improvements to sidewalks or bus stop areas. It is unlikely the funding source could be used for operations.

The median home in 2026 will pay approximately \$216.25 in street maintenance district fees. An increase of approximately five percent would generate an additional \$1 million and increase fees on the median home by \$10.

⁷ Year 1 based on 2026 budget. Following years based on projected revenues.

⁸ Assumes cooling inflation to two percent average.

⁹ Previous year tax revenue plus inflation.

¹⁰ Calculated based on formula provided by State of Montana.

¹¹ Updated City Charter caps transit mills at 11.71. UTD is not subject to the cap, but is subject to total revenue increase cap.

Viability: High revenue potential; politically sensitive.

Arterial Construction Fees

In support of constructing and/or reconstructing the arterial network in Billings, an Arterial Construction Fee has been established and is applied to all non-city/government properties in the city. Funds from the fees are segregated from other city funds and rates applied to all property classifications are set annually by the city council. The fund is intended to support capital improvements falls under the portion of the MCA covering impact fees.

The program generates approximately \$3 million annually for arterial improvements. Relative to the Street Maintenance District alternative, potential revenue for transit from this program is substantially less and the focus of where the dollars could be used (arterial routes) is also more restrictive.

Viability: Moderate for incremental support for capital projects in arterial corridors; unlikely to close full funding gap.

Employer/Institutional Partnerships

Institutional partnerships are sometimes used by transit agencies to increase revenue and provide incentives for local workers to use transit. Generally, major employers or universities in the area purchase transit passes (typically at a discounted rate) for all employees, who then have access to unlimited transit rides using their student or employee identification.

This may be especially attractive in Billings as three of the largest institutions in the area are all located on a single corridor – Billings Clinic, Intermountain Health, and Montana State University Billings. Such a program would likely require MET to provide high quality service to these riders, which might mean increased frequency or extended hours.

If 5,000 unlimited passes were purchased at a 50 percent discount, this would provide about \$840,000 in revenue per year. It might be slightly offset by a decrease in fare revenues as some who would have purchased passes on their own get access to the passes.

Viability: High potential; dependent on service quality and employer participation.

Parking Revenue and Parking Benefit Districts

The City of Billings collects approximately \$2.6 million in revenue through the parking department, including parking meter income, garage and surface lot permits, and violations. However, the parking department is currently projecting about \$3.3 million in expenses for 2026, partially due to the sale of two downtown parking lots, one of which will be leased back, reducing revenues and creating a new recurring expense.

Through a city reorganization it may be possible to merge the transit and parking departments, allowing parking revenue to supplement transit service. However, while this may provide long-term revenue opportunities, it has the potential of increasing the department's potential shortfall in the short term.

A [parking benefit district](#), which would support improvements by increasing parking fees in a specific area, would be an interim strategy. While this strategy has not been applied in Montana, it may be an option. The

increased meter rates would be designed to increase parking turnover and decrease parking congestion in the downtown area, with additional revenues going toward transit service.

Viability: Moderate for incremental support; unlikely to close full funding gap.

Impact Fees Fund

The Montana Code Annotated grants the authority for a community to impose impact fees to support improvement to transportation and select other types of capital improvement. The mechanism works by defining a charge to individual developments to account for the impact added traffic has on the current system. Fees collected transitionally help pay for adding turning lanes to intersection influenced by a development of for signal improvements. Developers are charged an upfront fee based on the type of use they propose to build and the size of the development.

Impact fees vary from the range currently being charged as they are an upfront one-time cost to the developer. State statutes require a report outlining the potential for impacts to be prepared and used, in part, as the basis for determining the fee to be charged to account for impacts. The concept is like the Arterial Construction Fee concept.

Bozeman has an impact fee program that supports capital funding for fire/emergency medical services, transportation, water, and wastewater. Impacts fees for residential units range from approximately \$5,400 to over \$25,000 depending on the square footage. Fees for each multi-family unit range from approximately \$3,700 to over \$16,200. Non-residential uses are charged based on the square footage across a range of uses, with a low of approximately \$700 per 100 square feet to over \$18,500 per 100 square feet for retail/restaurants. The program generates approximately \$11.5 million per year.

Viability: Politically dependent as similar fees attached to development are charges; high revenue potential if viable.

Marijuana Excise Tax Reallocation

Yellowstone County collects a three percent excise tax on all recreational marijuana sales, the maximum allowed by state law. A portion of this revenue goes to the City of Billings, estimated to be \$425,000 in 2026. Currently that revenue is dedicated to the construction of City Hall and increasing resources for mental health and substance abuse.

However, the use of excise taxes is under local control, and it may be possible in the future to reallocate a portion of that revenue to fund transit service if it is deemed politically viable. This would require cooperation across City departments and the support of City Council.

Viability: Politically dependent; moderate scale relative to need.

Joint Development and Transit-Oriented Development

[Joint development](#) refers to public-private partnerships to develop or improve land owned by transit agencies. For example, a transit agency may purchase parcels near a current or proposed station or rapid transit line and lease the land to a developer for development. The transit agency then collects revenues as rent payments on the property. As an additional benefit, transit ridership may increase due to increased density near major transit lines.

Some FTA funding may assist in property acquisition or property development, but the success of this strategy is largely driven by market forces. While Billings is growing, other areas of Montana are attracting much higher rates of growth and development. The most obvious area of potential is the downtown transfer station, which may be attractive to developers for a future joint venture.

Viability: Long-term supplemental strategy; limited near-term operating relief.

Tax Increment Financing (TIF)

A TIF is a public financing tool used by local governments to fund redevelopment, infrastructure, and community improvements by capturing future tax revenue increases. In Billings, a TIF district could be created to stabilize capital planning, budgeting, and funding.

Viability: Feasible for capital projects pending local approval for use.

Business Improvement District (BID)

Business Improvement Districts (BID) are allowed through MCA Title 7, Chapter 12, Part 11 and are intended to:

- Serve a public purpose.
- Promote the health, safety, prosperity, security and general welfare of people in the district and the state.
- Be of a special benefit to the property in the district.
- Aid in the tourism, promotion and marketing of activities within the district.

Within Billings, there are two BIDs, the Tourism Business Improvement District and the Downtown Business Improvement District. Funding from the Tourism BID is used for marketing and promotion of the community and is generated from assessments on hotel rooms. The Downtown BID was established in 2005 and renewed in 2015 and 2025. The Downtown BID is funded through assessments on properties in the downtown area and is managed by a Board of Directors appointed by the City Council. The BID is tasked with a combination of maintenance of the downtown areas, including emptying trash receptacles, snow removal on the sidewalks, and maintenance of the downtown restrooms. The BID also is responsible for developing and running downtown events.

Powers granted to a BID also include the ability to assess properties in the district for maintenance and repair of capital investments in coordination with the city.

A critical factor for consideration for transit operations and/or maintenance is a BID cannot be formed in areas that are predominantly residential. However, a coordinated effort between the city and the BID Board could support maintenance and rehabilitation of the downtown transit center or other MET facilities that are in non-residential areas.

Viability: Requires additional assessment on properties, which likely has limited political viability. Focus of where funding could be generated and the level of funding is limited.

Eliminated Alternatives

The following potential funding alternatives were determined not to be viable in Billings:

- Resort tax: A resort tax is Montana’s version of a local options sales tax, levied only on hotels, restaurants, bars and resorts. This option is not viable as Billings does not meet the state’s definition of “resort community.”
- Wheelage tax: Many communities around the country include a “wheelage fee” on motor vehicle registrations to help fund local transportation. This option is not viable because a wheelage tax does not exist in Montana.
- Franchise fees: These are fees added to utility bills by municipalities. This option is likely not feasible in Billings following the City settling on a class action lawsuit on franchise fees in 2023.

Funding Alternatives Evaluation Summary

No single alternative is sufficient alone to close the possible future funding gap while supporting service expansion. The full results summary of the analysis is shown in Table 3, though the most scalable tools are:

- A dedicated property tax levy through a UTD structure
- CMAQ funding for operations
- Transportation utility fee adjustments
- Employer/institutional bulk pass partnerships

Incremental tools such as marijuana excise reallocation or parking benefit districts may provide supplemental support but are unlikely to fully address long-term needs. Joint developments and TODs may provide operating costs in the long term but will require capital investments to develop. Finally, TIFs may help with funding capital in the long term, but funds would not be eligible for operations.

Table 3. Funding Tools Evaluation Summary

Option	Description	Evaluation Criteria				
		Applicability		Potential Additional Funding Generated	Viability/ Use Simplicity	Option to Fund Transit in MT
		Operations	Capital/ Asset Improvement			
Increase Direct (System Generated) Revenues	System may increase fares, or seek additional advertising/partnership opportunities	●	●	●	●	Yes
Urban Transportation District	Voter-approved special taxing district, which can levy property taxes	●	●	●	●	Yes
Congestion Mitigation Air Quality Funds	Transit's impact of reducing vehicle miles traveled connects use of CMAQ funds to supporting operations	●	●	●	●	Yes
Arterial Construction Fee	Fees paid by property owners/developers dedicated to arterial street (re)construction and maintenance (including bond payments).	●	●	●	●	Yes, capital/ asset maintenance only.
Street Maintenance District Assessment	Assessment within a designate area (district) for on-going street maintenance and improvements. Can include sidewalks.	●	●	●	●	Yes, capital/ asset maintenance only.
Employer/ Institutional Partnerships	Partner with transit supportive employers or businesses for service and or capital improvements supplemental funding.	●	●	●	●	Yes, capital/ asset maintenance only.
Parking Fees/Parking Benefit District	Dedicate all or part of parking revenue to transit operations	●	●	●	●	Yes, but no current examples
Impact Fees Fund	Fee charged to new development to account for the new infrastructure made necessary by the development.	●	●	●	●	Yes, specific new capital facilities/ assets only

Option	Description	Evaluation Criteria				
		Applicability		Potential Additional Funding Generated	Viability/ Use Simplicity	Option to Fund Transit in MT
		Operations	Capital/ Asset Improvement			
Marijuana Excise Taxes	Dedicate part of City's share of excise taxes to transit operations	●	●	●	●	Yes, but no current examples
Tax Increment Financing	Taxing district that captures future tax revenue increases for capital projects	●	●	●	●	Yes, capital/ assets only
Business Improvement District Taxes	Overlay taxing area to support business improvement/expansion that serves a public use. Residential zoned areas exempt.	●	●	●	●	Yes, in designated business districts
Service agreements (e.g., providing demand response to Laurel)	Coordinate with Laurel leadership to provide demand response service - accesses 5311 funds, likely additional state funds, local funds and fares	●	●	●	●	Yes
Resort Tax	A resort tax is MT's version of a local options sales tax, levied only on hotels, restaurants, bars and resorts	●	●	●	●	Yes, but not in Billings
Wheelage Tax	Use a portion of "wheelage fee" on motor vehicle registrations to help fund local transportation	●	●	N/A	N/A	No
Franchise Fees	Fee added to utility bills by municipalities	●	●	●	●	Yes, but no current examples

Legend

- High applicability, funding potential, and viability
- Moderate applicability, funding potential, and viability
- Low applicability, funding potential, and viability

Fares Analysis

Increasing fare revenue is one way to fund operations and work toward financial sustainability; however, raising fares carries the risk of ridership reduction and potential equity concerns. Another potential way to increase total fare revenue without raising the cost of a fare is to make it easier to purchase fares through multiple media and physical locations. To better understand MET Transit's fare practices and how they could potentially be improved, this section evaluates the following topics relative to comparable peer systems:

- MET Transit's fare revenue and operating cost context.
- Fare structure comparisons, including base fares, pass pricing, and fare media.
- Farebox recovery and cost per passenger comparisons.
- Variations in local funding approaches.

This analysis focuses on systemwide financial metrics to understand how MET Transit's operating expenses, fare revenue, and farebox recovery align with similarly sized transit systems throughout Montana, with other systems selected for comparison in North Dakota, South Dakota, and Indiana. Using 2024 National Transit Database (NTD) data, this section includes several measures to provide a consistent financial snapshot across agencies.

This section also identifies the publicly available characteristics of peer agencies' local funding environments and other revenue sources to contextualize MET Transit's funding sources. This component of the analysis is intended to establish a financial baseline that will guide broader discussion of governance structure and funding sustainability.

Peer Agency Selection

Peer agencies included in this analysis were identified based on prior governance discussions, regional context, and general alignment in agency size and the scale of service provided. Several Montana systems, including **Mountain Line (Missoula)**, **Great Falls Transit District (Great Falls)**, and **Streamline (Gallatin Valley/Bozeman)** were included in governance interviews conducted earlier in this project; these agencies provide relevant statewide context despite not necessarily aligning exactly on the scale of service. Additional peer systems include **Bis-Man Transit (Bismarck-Mandan, ND)**, **Sioux Area Metro (Sioux Falls, SD)** and **Citilink (Fort Wayne, IN)**. These agencies were selected due to similarities in service scale and urban context, but also for their illustrative value in reviewing alternative local funding structures such as public-private or institutional partnerships. While this peer group is not intended to represent a statistically derived set, the selected agencies provide financial and structural context for comparison using publicly available data sources.

Fare Comparison

Passenger fares are an important portion of any transit agency's operating budget, including MET Transit's. Fare policy, fare levels, and fare collection technology are important to consider when determining a strategic direction for a transit agency.

Table 4 lists peer agencies' single ride, day pass, and monthly pass fares. These fare categories were selected because they are consistently available across agencies, though many agencies also offer additional fare products, such as multi-ride passes and reduced fare categories. Two of the Montana peer systems

(Mountain Line and Streamline) currently offer fare-free fixed-route service. Among the remaining systems, base fares are generally consistent, with most agencies charging \$1.50 per ride.

MET Transit's base fare of \$2.00 is somewhat higher than other fare-charging systems included in this comparison. However, day pass and monthly pass pricing shows greater variation across agencies. Day passes range from \$3.00 to \$6.00, while monthly passes range from \$30.00 to \$54.00. MET Transit's monthly pass price of \$28.00 is the lowest among the peer systems reviewed, indicating a relatively lower per-ride cost for the system's most frequent riders despite the higher single-ride fare.

Table 4. Peer Agency Fixed-Route Fare Comparison

Agency	Location	Single Ride	Day Pass	Monthly Pass
Mountain Line*	Missoula, MT	-	-	-
Great Falls Transit District	Great Falls, MT	\$1.00	\$4.00	\$30.00
Streamline*	Gallatin Valley/Bozeman, MT	-	-	-
Bis-Man Transit	Bismarck-Mandan, ND	\$1.50	\$6.00	\$36.00
Sioux Area Metro	Sioux Falls, SD	\$1.50	\$3.00	\$30.00
Citilink	Fort Wayne, IN	\$1.50	\$3.75	\$54.00
MET Transit	Billings, MT	\$2.00	\$4.00	\$28.00

*Agency is zero-fare.

Overall, the comparison suggests that while MET Transit's base fare is somewhat higher than most of the selected peers, its pass pricing structure offers stronger quantity discounts than peer agencies. These differences highlight the ways in which agencies balance single-ride fares and passes when making decisions on fare policy structure to support frequent ridership.

Fare Structure Considerations

In addition to fare levels themselves, it is also important to consider broader factors which may influence how fares function within a transit system. These include fare collection methods and how changes in fare levels may impact system ridership.

FARE PAYMENT METHODS

The types of fare media available can have an impact on rider convenience, fare collection efficiency, and the administrative costs borne by agencies associated with operating a fare system. Common fare media include cash payment, paper tickets or passes, smart cards, and mobile ticketing apps.

Table 5 summarizes the primary fare media available across the peer systems reviewed. Most agencies continue to accept cash onboard vehicles, while several systems also offer electronic or app-based fare payment. Specifically, mobile ticketing has become increasingly common industry-wide in recent years among small and mid-sized urban transit agencies, as it allows riders to purchase and store tickets on their smartphones. This trend has the potential to reduce the need for physical ticket distribution and processing.

Table 5. Peer Agency Fare Media Comparison

Agency	Location	Cash	Paper Passes	Smart Card	Mobile Ticketing
Mountain Line*	Missoula, MT	-	-	-	-
Great Falls Transit District	Great Falls, MT	✓	✓	-	✓
Streamline*	Gallatin Valley/Bozeman, MT	-	-	-	-
Bis-Man Transit	Bismarck-Mandan, ND	✓	✓	-	✓
Sioux Area Metro	Sioux Falls, SD	✓	✓	-	✓
Citilink	Fort Wayne, IN	✓	✓	✓	✓
MET Transit	Billings, MT	✓	✓	✓	✓

*Agency is zero-fare.

While fare media does not relate directly to fare levels, it can influence how easily riders are able to access the transit system and how efficiently agencies collect revenue. Systems with multiple payment options may improve rider convenience and reduce barriers to using transit, while also allowing for the use of more advanced tools to track fare sales and patterns.

Additionally, the use of fare media like smart cards and mobile ticketing enables streamlined implementation of fare capping, in which riders are automatically charged no more than the cost of a daily or monthly pass once their accumulated fares paid over the relevant time period reach that threshold. This provides many of the benefits of pass products without requiring upfront payment, which may improve affordability for riders.

ELASTICITY

It is generally understood that changes to fare levels affect ridership, and those changes are most acutely felt by those individuals for whom transit fares are a significant financial burden. In other words, a fare increase can be associated with a decline in ridership, whereas a fare decrease can increase ridership.

Transit planning research commonly describes this relationship using fare elasticity, which measures how sensitive ridership is to changes in price. A commonly cited planning guideline is that transit ridership will increase by approximately 0.3 percent for every 1.0 percent decrease in fares over their previous level (and vice versa).¹² In more practical terms, this means that a 10 percent fare increase might be expected to reduce ridership by approximately three percent. Research conducted through the Transit Cooperative Research Program indicates that short-run fare elasticities typically fall near -0.3 for many transit systems.

For planning purposes, this is an acceptable estimate; however, when looking at specific user groups, it is important to be mindful of the following outcomes of transit fare changes:

- Rider groups that are least sensitive to fare changes tend to be “traditional” commuters traveling to core areas of cities.

¹² Transit Cooperative Research Program (TCRP) Report 95: Traveler Response to Transportation System Changes, Chapter 12 – Transit Pricing and Fares. https://trb.org/publications/tcrp/tcrp_rpt_95c12.pdf, p. 12-11.

- Demand is most sensitive to price at off-peak times, for short trips, in relatively affluent markets, and places without much traffic congestion.
- Fare increases affect travel behaviors of people with lower incomes more than more affluent passengers.
- The quality of transit service and the cost of automobile travel and ownership is a much more significant factor when determining transit ridership in comparison to fare changes.

While fare changes can influence ridership levels, their effects are typically expected to be modest and can vary across rider groups and local conditions. As such, fare policy is often considered along with broader questions of funding sustainability and service quality.

Systemwide Financial Context

Systemwide financial metrics provide additional insight into the role of fares within transit agency funding. Using National Transit Database (NTD) data, several high-level financial indicators were reviewed for both MET Transit and its peers. These indicators provide a 2024 snapshot of annual operating costs, ridership levels, and the relationship between fare revenue and local funding sources.

Because several of the selected peer agencies report to NTD as reduced reporters, the availability of certain financial data varies across systems. As such, this analysis focuses on metrics that are available consistently across agencies.

Fixed-Route System Size and Productivity

Table 6 compares the scale and operating efficiency of fixed-route service across the peer systems reviewed. Fixed route operating statistics were used for this comparison to evaluate the portion of each system that is most directly influenced by fare policy and is most comparable across agencies. Among peer agencies, Citilink and Mountain Line operate the largest fixed-route systems in the group, each with over a million annual passenger trips and over \$10 million in fixed-route operating expenses. MET Transit falls near the middle of the peer group in terms of both ridership and cost effectiveness. Fixed route operating expenses per passenger trip vary across systems, ranging from \$8.61 per trip in Missoula to \$17.34 in Bismarck-Mandan.

Table 6. Fixed-Route System Size and Productivity

Agency	Location	Fixed Route Operating Expense	Fixed-Route Passenger Trips	Operating Expense per Passenger Trip (Fixed-Route)
Mountain Line	Missoula, MT	\$10,514,003	1,221,669	\$8.61
Great Falls Transit District	Great Falls, MT	\$3,502,891	363,628	\$9.63
Streamline	Gallatin Valley/Bozeman, MT	\$2,106,093	148,397	\$14.19
Bis-Man Transit	Bismarck-Mandan, ND	\$2,107,550	121,538	\$17.34
Sioux Area Metro	Sioux Falls, SD	\$7,216,243	496,460	\$14.54
Citilink	Fort Wayne, IN	\$14,034,876	1,543,424	\$9.09
MET Transit	Billings, MT	\$5,099,731	385,381	\$13.23

Source: NTD Annual Agency Profiles, 2024

Systemwide Fare Revenue and Farebox Recovery

Table 7 summarizes systemwide operating expenses, fare revenue, and farebox recovery ratios for MET Transit and peer agencies. Unlike the previous comparison of fixed-route productivity, these metrics reflect total systemwide operations across all modes in order to better illustrate how passenger fares contribute to agency funding.

As previously discussed, Mountain Line and Streamline both operate fare-free fixed-route service and therefore generate little to no fare revenue. Among agencies that do charge fares, farebox recovery ratios generally remain modest, reflecting typical funding structures of small and mid-sized urban transit agencies. MET Transit's farebox recovery ratio is the highest in the peer group, indicating that fares make up a larger share of operating expenses relative to each of the other systems reviewed. This conclusion aligns with previous comparisons which found that MET Transit's single-ride fares are the highest in the peer group.

Table 7. Systemwide Operating Expense, Fare Revenue, and Farebox Recovery

Agency	Location	Total Operating Expense	Fare Revenue	Farebox Recovery
Mountain Line*	Missoula, MT	\$14,114,272	-	0.0%
Great Falls Transit District	Great Falls, MT	\$4,835,839	\$320,858	6.6%
Streamline*	Gallatin Valley/Bozeman, MT	\$2,761,060	\$7,393	0.3%
Bis-Man Transit	Bismarck-Mandan, ND	\$5,049,602	\$338,153	6.7%
Sioux Area Metro	Sioux Falls, SD	\$11,481,319	\$418,433	3.6%
Citilink	Fort Wayne, IN	\$18,170,345	\$1,543,659	8.5%
MET Transit	Billings, MT	\$6,785,076	\$602,121	8.9%

*Agency is zero-fare.

Source: NTD Annual Agency Profiles, 2024

Local Funding

Table 8 provides additional context on the role of local funding sources in supporting operations among MET Transit and its peers. Local funding values include passenger fare revenue, funding reported through NTD as allocated by local government(s), and any other locally generated tax revenues dedicated specifically to transit, such as transit district property taxes or sales taxes.

Local funding shares vary widely across the peer systems reviewed. Mountain Line relies heavily on local funding sources, with local revenues supporting more than 70 percent of total operating expenses. Several other peer systems, including Sioux Area Metro, Citilink, and Great Falls Transit, also rely on local funding for roughly half of their operating budgets. Relative to these peers, local funding represents a smaller share of total operating expenses for MET Transit and Streamline.

Comparing fare revenue to local funding also provides context on the importance of fares within each agency's local funding structure. Among the peer systems that charge fares, fare revenue generally

represents a small percentage of locally generated funding. This reflects a common pattern among transit systems in which fares supplement operating budgets but are not necessarily intended to replace primary local funding sources such as taxes or local government contributions.

Table 8. Local Funding Context

Agency	Location	Local Funding	Local Funding Share	Fare Revenue as % of Local Funding
Mountain Line*	Missoula, MT	\$10,048,920	71.2%	0.0%
Great Falls Transit District	Great Falls, MT	\$2,432,672	50.3%	13.2%
Streamline*	Gallatin Valley/Bozeman, MT	\$1,013,824	36.7%	0.7%
Bis-Man Transit	Bismarck-Mandan, ND	\$2,083,563	41.3%	16.2%
Sioux Area Metro	Sioux Falls, SD	\$6,106,667	53.2%	6.9%
Citilink	Fort Wayne, IN	\$9,249,978	50.9%	16.7%
MET Transit	Billings, MT	\$2,363,311	34.8%	25.5%

*Agency is zero-fare.

Source: NTD Annual Agency Profiles, 2024

Non-Fare Local Revenue and Funding Approaches

In addition to passenger fares and traditional local government contributions, agencies supplement operating funding through a variety of locally generated revenue sources. These arrangements can leverage creative local revenue opportunities that may be unique to the communities each agency serves. The peer systems evaluated during this process illustrate several examples of these approaches.

Institutional Partnerships

Large institutions, such as hospitals and universities, often partner with transit agencies to fund services that support employee, student, or visitor travel. These arrangements typically involve direct financial contributions to support specific routes or broader transit system access.

CITILINK – FORT WAYNE, IN

Citilink operates the MedLink route connecting two Parkview Health hospital campuses. The route is funded directly by the hospital system, which contributes approximately \$325,000 annually to support this service. The partnership allows the hospital to improve access between facilities, support employee commuting, and expand transit access for the surrounding community to its facilities.

MOUNTAIN LINE – MISSOULA, MT

Mountain Line receives funding support through the Associated Students of the University of Montana. Student fees help support the agency's fare-free service model and provide a stable revenue source tied to the university population. University partnerships like this are relatively common in college communities and often replace or supplement traditional fare revenue. An alternate version of such an arrangement can also

be implemented when colleges and universities purchase a set number of passes at the outset of each academic year, often outlined and repeated annually in a contract.

Directly Generated Revenue

Transit agencies may generate revenue directly through activities such as advertising, sponsorships, or other commercial agreements. While these revenues typically represent a small share of overall funding, they can help offset operating costs and diversify funding sources.

MET Transit currently generates locally controlled revenue through advertising on transit vehicles and facilities. As Table 9 shows, MET Transit has the highest advertising revenue among its peers as well as the highest value of advertising revenue as a percentage of total operating expenses at 3.1 percent. The second closest was Bis-Man Transit with 2.5 percent, while the other peers were 1.0 percent or less. This shows MET Transit’s commitment to diversifying its revenue by implementing a successful advertising revenue stream.

Table 9. Advertising Revenue, 2024

Agency	Location	Total Operating Expense	Advertising Revenue	Advertising Revenue as % of Total Operating Expense
Mountain Line*	Missoula, MT	\$14,114,272	\$25,594	0.2%
Great Falls Transit District	Great Falls, MT	\$4,835,839	\$25,476	0.5%
Streamline*	Gallatin Valley/Bozeman, MT	\$2,761,060	\$0	0.0%
Bis-Man Transit	Bismarck-Mandan, ND	\$5,049,602	\$123,953	2.5%
Sioux Area Metro	Sioux Falls, SD	\$11,481,319	\$68,770	0.6%
Citilink	Fort Wayne, IN	\$18,170,345	\$179,169	1.0%
MET Transit	Billings, MT	\$6,785,076	\$207,993	3.1%

Source: 2024 NTD Annual Data - Funding Sources (Directly Generated)

Dedicated Funding Mechanisms

Some transit systems are funded through dedicated transit taxes rather than annual municipal appropriations. These funding mechanisms are typically authorized through voter approval and provide a stable source of local funding dedicated specifically to transit operations.

GREAT FALLS TRANSIT DISTRICT – GREAT FALLS, MT

Great Falls Transit District receives funding through a voter-approved transit district property tax in addition to passenger fares. Under this structure, the transit district generates funding directly through a dedicated local tax rather than relying on general fund appropriations from local governments. Dedicated funding mechanisms such as transit district taxes can provide a stable revenue stream for transit operations while allowing agencies greater financial independence from annual municipal budgeting processes.

Fares Analysis Summary

Based on the fare analysis, fare policy can help MET Transit's financial sustainability, but it is unlikely to be a major revenue solution on its own. MET Transit already relies on fares more than its peers: among systems that charge fares, MET Transit has the highest farebox recovery (8.9 percent) and the highest fare revenue as a share of local funding (25.5 percent). This suggests there may be limited upside from fare increases before equity and ridership impacts become a concern.

If MET Transit considers raising fares, the peer context matters. MET Transit's \$2.00 single-ride fare is the highest among the fare-charging peers (most are \$1.50), while its \$28 monthly pass is the lowest. This means MET Transit is already relatively expensive for occasional riders but comparatively affordable for frequent riders. The analysis also notes that ridership generally declines with fare increases, so any increase should be modest and carefully targeted to avoid offsetting revenue gains with ridership loss.

MET Transit is already advanced in its offerings of fare payment options, with cash, paper passes, smart cards, and mobile ticketing options available. MET Transit also already offers fare capping. One area of potential improvement is to have more ticket and fare card vending machines available in popular public places across the city. Finally, MET Transit has a successful advertising program that generates the highest advertising revenue among the peers as well as the highest advertising revenue as a percentage of its total operating expense.

Regional Considerations

There are many regional dynamics becoming increasingly relevant to MET Transit's long-term sustainability. Growth patterns, travel demand, federal funding eligibility, and community expectations suggest that transit planning in Billings should consider areas outside of municipal limits.

Laurel Integration

Laurel represents the most feasible near-term regional partnership. Laurel Transit currently operates a small, demand-response service funded primarily through 5311 and TransADE grants with a modest local match. Laurel leadership has expressed openness to MET Transit operating service on its behalf through a purchase-of-service arrangement. Key considerations include:

- Laurel's annual operating budget is approximately \$65,000, indicating limited local fiscal capacity.
- Fixed-route service is not considered viable at this time, reinforcing that any integration model would likely focus on demand response.
- If the urban area expands to include Laurel after the 2030 census, federal funding allocations could shift, though this outcome is not guaranteed.

Under the Status Quo model, Laurel could continue operating independently with coordination through interlocal agreements. Under a UTD model, Laurel could either be included within district boundaries or participate through a purchase-of-service contract. In either case, the relatively small scale of Laurel's operation suggests that integration is administratively feasible, though funding flows and service standards would need to be clearly defined.

Lockwood and Westward Growth

Lockwood and areas along the I-90 corridor represent significant unmet service demand, as reflected in survey results from a July public engagement event. Forty-two survey responses were located in Lockwood, indicating meaningful public interest in service expansion.

Service to Lockwood would require additional operating resources and complementary paratransit coverage, increasing annual costs by approximately \$550,000 per added bus when operating outside current boundaries.

Regional governance structures may impact the feasibility with which such service can be implemented. Under the municipal model, expansion beyond city limits requires interlocal agreements and external funding sources. Under a UTD, district boundaries could be designed to include Lockwood or areas to the west of Billings from the outset, or they could be expanded through annexation processes.

County Participation and Boundary Design

Yellowstone County participation remains uncertain and would likely require additional outreach and research. Interviews with UTDs reinforced the importance of carefully defining district boundaries to align with service expectations and to avoid opt-out pressures or mismatched coverage obligations.

If a multi-jurisdictional UTD were pursued, decisions regarding initial boundaries would influence political feasibility and long-term flexibility. Alternatively, maintaining the Status Quo model would preserve municipal clarity but might require multiple additional agreements as growth continued.

Comparative Analysis: Governance and Funding Alignment

Governance and funding decisions are interdependent and while they have so far been evaluated independently in this report, the comparative analysis below synthesizes findings from both the governance and funding evaluations.

Status Quo Model

Under the municipal model, MET Transit remains embedded within City government. Funding flexibility is primarily limited by the Charter-imposed mill levy cap and municipal budget competition. Strengths of this alignment include:

- Administrative continuity and lower transition risk.
- Established accountability to elected City officials.
- Ability to pursue incremental funding tools (utility fee adjustments, parking revenues, employer partnerships) without structural change.

Limitations include:

- Limited ability to expand property tax authority without voter approval.
- Potential constraints on service expansion beyond city limits.
- Exposure to broader City fiscal pressures unrelated to transit.

UTD Model

Under a UTD model, transit governance is separated from municipal structure and vested in a single-purpose district with independent levy authority. Strengths of this alignment include:

- Dedicated revenue source capable of addressing structural funding gaps at scale.
- Flexible boundary design to accommodate regional growth.
- Governance focus solely on transit policy and investment decisions.

Limitations include:

- Requirement for voter approval and public campaign.
- Administrative transition planning, including asset transfer and labor considerations.
- Continued exposure to statewide levy growth limits.

Alignment with Service Expansion Goals

The scale of projected expansion costs of \$1.7 to \$3.3 million annually for three to six additional buses suggests that supplemental revenue tools alone are unlikely to sustain both existing service and meaningful expansion.

If expansion into Lockwood, increased frequency, and enhanced regional connectivity are prioritized, governance structures that support scalable property tax authority may provide greater long-term stability. If maintaining current service levels with modest adjustments is the primary objective, the municipal model may remain viable with targeted supplemental funding.

Risk Distribution Rather Than Risk Elimination

Both pathways carry risk. The municipal model concentrates fiscal risk within existing Charter constraints and City budget competition. The UTD model concentrates political and formation risk upfront but may reduce long-term structural fiscal pressure.

Ultimately, the comparative analysis indicates that the choice between governance pathways reflects differing tolerance for political complexity versus fiscal constraint. The evaluation framework provided in this report is intended to assist decision-makers in weighing those tradeoffs transparently and deliberately.

Governance and funding tools are closely linked. The Status Quo model preserves administrative simplicity but limits revenue flexibility. A UTD structure introduces a dedicated funding mechanism aligned with regional expansion potential.

In addition to the UTD tax, CMAQ presents a real opportunity for funding operations. Utility fees, partnerships, excise reallocation, and other funding mechanisms may supplement either model but are unlikely to independently close projected funding gaps.

PART III: ECONOMIC RETURN ON TRANSIT INVESTMENT

This section discusses the benefits of providing transit service. When revenue sources are constrained, it is crucial to demonstrate that transit services are financially sustainable and that they provide tangible benefits to the community.

A recent healthcare study¹³ found that about six percent of adult Americans reported that a lack of reliable transportation had kept them from medical appointments, meetings, work, or from getting things they needed for daily living. These missing life experiences come with a price. By filling transportation gaps, public transportation helps residents of a community avoid unnecessary penalties.

There is more than one approach to valuing transit; this section uses benefit-cost analysis methods to weigh the cost of providing service against the benefits generated by transit service.

Benefit-Cost Analysis

A benefit-cost analysis (BCA) identifies and monetizes the *societal benefits* of transit service and compares them with the *cost* of providing transit service. Most benefits are quantifiable, and most quantifiable benefits can be monetized. A BCA takes only the monetary values so that a single ratio can be produced. If the ratio is greater than one, the net benefit is positive.

Because it is expressed in dollar terms, this net benefit can also be described as a return on investment: every dollar invested in transit generates a larger dollar amount of societal benefit. This section uses ridership figures from 2024-2025 to estimate the dollar value of the trips taken on transit in Billings, compare this value with the cost of operating the service, and calculate a return on investment.

Forgone Trips

The dollar value is applied to trips that would be forgone in the absence of transit. This is only a fraction of total trips. If public transit were not available, then many trips would likely be made in other ways – by hiring a taxi, asking a friend for a ride, walking, or (for those who have cars) driving instead.

Research into alternate modes suggests that the overall percentage of transit trips that would only be made by transit is around 20 percent. In a 2017 analysis of on-board surveys conducted by transit agencies around the United States, about 23 percent of bus trips and 21 percent of rail trips would not be made if public transportation service were no longer available.¹⁴ When the same survey data are broken down by city size, 17 percent of trips would be forgone in urban areas with fewer than a million residents; residents of smaller cities are more likely to walk, bike, or get a ride instead.

Some trips may be more likely to be forgone than others. It is reasonable to suppose that most people looking for work would find some way to get there if transit were not an option. Other trips are more likely

¹³ Ng AE, Adjaye-Gbewonyo D, Dahlhamer J. Lack of reliable transportation for daily living among adults: United States, 2022. NCHS Data Brief, no 490. Hyattsville, MD: National Center for Health Statistics. 2024. DOI: <https://dx.doi.org/10.15620/cdc:135611>

¹⁴ APTA (2017). Who Rides Public Transportation. <https://rosap.nhtl.bts.gov/view/dot/6296>

to be forgone. During the COVID-19 pandemic, a survey of patients in North Carolina found that 20.7 percent of respondents had missed a medical appointment because they could not find a ride.¹⁵

Trip Purpose

In order to place a value on a trip, it is important to understand its purpose. Based on community survey results from the 2023 MET Transit TDP update, the top trip purpose among daily users of transit is job access (62 percent; Table 10). Healthcare trips are a smaller but measurable share at four percent; it represents a larger share for infrequent/occasional transit users. Other trip purposes include shopping and errands, K-12 school trips, personal/recreational/social activity, and accessing government or social service agencies.

Table 10. Trip Purposes by Frequency of Ridership

Trip Purpose	5 or More Days per Week	A Few Days per Week	A Few Times per Month	Less than Once per Month
Government or social service agency	2.2%	2.9%	3.0%	0.0%
Medical	4.4%	8.6%	16.7%	15.8%
Personal/recreational/social activity	0.0%	11.4%	18.2%	36.8%
School (K-12)	13.3%	11.4%	6.1%	1.8%
Shopping or errands	17.8%	22.9%	25.8%	21.1%
Work	62.2%	42.9%	30.3%	24.6%

Source: Billings Met Transit Community Survey, 2023.

Among these trip purposes, the two most readily quantifiable types of trips are work- and healthcare-related.

- **Work benefit:** The wages earned by people who use transit to access jobs. The value of one work-related bus trip is estimated at \$60. The analysis assumes that five percent of work trips would be forgone in the absence of transit and that an hourly wage is \$15.
- **Healthcare cost savings:** The net value of regular medical appointments, including both the difference between routine and emergency care and the value of additional quality of life years attributable to well-maintained conditions. The value of one healthcare-related bus trip is estimated at about \$609. The analysis assumes that 20 percent of healthcare trips would be forgone in the absence of transit.

Other trip purposes have benefits as well. Visits to a government or social service agency have substantial value to people who receive services. With these visits they may be maintaining their eligibility for supplemental nutrition programs, managing their utility bills, or otherwise ensuring that they continue to thrive. Social activities help maintain community resilience through relationships; shopping and errands

¹⁵ Cochran, A. L., McDonald, N. C., Prunkl, L., Vinella-Brushner, E., Wang, J., Oluyede, L., & Wolfe, M. (2022). Transportation barriers to care among frequent health care users during the COVID pandemic. BMC public health, 22(1), 1783. <https://doi.org/10.1186/s12889-022-14149-x>

include essential goods; and school trips by transit reduce pressures on busy parents as well as the yellow bus system.

However, these other benefits are less readily quantifiable, as they have not been studied as thoroughly in the literature. In the absence of a verifiable estimate, their value is not incorporated into the analysis.

Work

About half of frequent transit users use the bus to get to their jobs. If transit were not available, there would undoubtedly be people who would not be able to work or who would be working less desirable jobs.

A straightforward way to estimate the benefit of work trips is to divide an individual's wage by the number of transit trips they had to make to earn it. Wages vary across regions and demographic groups, with transit riders tending to earn below their local average. The state minimum wage of \$10.85 provides a floor for any estimates but is likely an underestimate for transit riders. According to recent statistics from the [Bureau of Labor Services](#), the average hourly wage in Billings was \$28.64 in 2024. Within the relatively low-paid industries of food preparation, healthcare support, and administrative support, average wages ranged from \$15.64 to \$22.28. Taking \$15 an hour as a conservative estimate, if a person makes two daily trips to complete an eight-hour shift, then the value of a single trip is \$15 times 4 or \$60.

Healthcare Access

Hughes-Cromwick et al. (2005)¹⁶ established a methodology for estimating the value of a healthcare trip that continues to be the standard. The study looked at the cost-effectiveness of providing non-emergency medical transportation. It measured two types of benefit:

- Actual decreases in healthcare costs for some conditions. E.g. by providing routine care for a condition, it is possible to avoid major expenditures on emergency care. This care is deemed cost-saving.
- Improved quality of life for people who receive treatment for chronic conditions. The vehicle for attaching a dollar to quality of life is the Quality Adjusted Life-Year (QALY), which is valued at \$50,000. An intervention that provides one additional QALY and costs less than \$50,000 is deemed cost-effective.

The study was comprehensive in that it identified the population that misses non-emergency medical care because of a lack of available transportation, determined the medical conditions that the target population suffered from, estimated the cost of providing transportation, estimated the healthcare costs and benefits that would result from providing transportation for the target population, and compared the relative costs and benefits. The chronic medical conditions found to most affect transportation-disadvantaged populations included depression, hypertension, heart disease, asthma, chronic obstructive pulmonary disease, diabetes, and end-stage renal disease. The preventive care found to be most needed included dental care, cancer screening, prenatal care, and vaccinations. For all of these conditions, well-managed care including transportation costs was found to be either cost-effective or cost-saving.

¹⁶ Hughes-Cromwick, P., Wallace, R., Mull, H., Bologna, J., Kangas, C., Lee, J., & Khasnabis, S. (2005). "Cost benefit analysis of providing non-emergency medical transportation." TCRP (No. Project B-27).

Godavarthy et al. (2014)¹⁷ used the methods and national norms documented by Hughes-Cromwick et al. to produce an estimate of the value of a single healthcare trip. The estimate rolls different conditions and their respective benefits into one composite number: \$357 for a one-way trip. This dollar figure has since been used in other studies.^{18,19} If that 2005 figure is converted to 2026 dollars, it comes to \$608.89 in savings per healthcare trip.

Analysis of Ridership and Survey Data

In order to estimate a return on investment for Billings, community survey data on trip purpose were combined with recent ridership figures to estimate the number of trips per year that are made for each purpose. Those trip purposes that could be assigned a value were added up to estimate the total benefit of transit provision.

Two different values are used in the analysis of the return on investment: the total cost of operating the system, and the local investment. Because so much public transportation spending is federally funded, local transit investments have a powerful leverage effect that should be considered in any discussion.

The resulting benefit-cost ratio is shown in Table 11.

Table 11. Cost-Benefit Ratio for Billings Transit Investment

Cost Input	Benefit	Cost	Benefit/Cost Ratio
Total Operating Budget (Bus Only) 2024	\$3,908,216	\$5,099,731	0.77
Local Funding (All Modes) 2024	\$3,908,216	\$1,205,889	3.24

Source: National Transit Database (NTD) and SRF analysis of MET Transit Community Survey (2023) and MET Transit ridership data (2024-2025). "All Modes" represents total local investment into transit, as reported to the NTD. This value includes both fixed-route and paratransit. The benefit value is derived from fixed-route trips only.

When the total operating budget is compared with the total return for fixed route, the benefit/cost ratio is below 1.0.

More importantly, the ratio between benefits and *local* funding is much higher at 3.24. This means that for every dollar of local funding that Billings invests in transit service, \$3.24 is returned to the community.

It is important to note that this is based on a conservative estimate for the value of most trips, as shown in Table 12.

¹⁷ Godavarthy, R., Mattson, J., & Ndembe, E. (2014). Cost-Benefit Analysis of Rural and Small Urban Transit. University of South Florida, Tampa: National Center for Transit Research.

¹⁸ Mattson, J. (2020). Measuring the Economic Benefits of Rural and Small Urban Transit Services in Greater Minnesota. Upper Great Plains Transportation Institute, North Dakota State University. <http://mndot.gov/research/reports/2020/20210.pdf>

¹⁹ Ducote, N., and K. Belton Ducote. (2016). Gap Analysis and Cost-Benefit Modeling: Northeast Oregon Public Transit's Rides to Wellness Program. Prepared by Ducote Consulting LLC for Community Connection of Northeast Oregon and Northeast Oregon Public Transit, La Grande, OR.

Table 12. Return on Investment Assumptions

Trip Purpose	Weighted Total Annual Trips	% Forgone	Value per Trip	Value per Year
Government or social service agency	9,448	5%	\$0	\$0
Medical	27,115	20%	\$609	\$3,302,617
Personal/recreational/social activity	23,405	30%	\$0	\$0
School (K-12)	45,756	5%	\$0	\$0
Shopping or errands	77,791	30%	\$0	\$0
Work	201,866	5%	\$60	\$605,599

Source: SRF analysis of MET Transit Community Survey (2023) and MET Transit ridership data (2024-2025).

PART IV: STAKEHOLDER INPUT & PEER REVIEW

This study was guided largely by a Project Review Committee of local stakeholders, peer interviews, and discussions with regional partners. The input summarized below reflects the perspectives gathered throughout the study process and helped shape the evaluation of governance and funding alternatives.

Committee Meetings

A Project Review Committee was convened to oversee and guide the study. Members included City of Billings MET Transit leadership, as well as representatives of the MPO, Yellowstone County, the City of Laurel, Allies in Aging, the City/County Planning Board, the Lockwood Pedestrian District, the Lockwood Steering Committee, and School District 2. Committee meetings were held on the following dates:

- September 11, 2025
- October 14, 2025
- November 20, 2025
- February 5, 2026
- April 23, 2026

Early meetings focused on:

- Identifying unmet transportation needs, particularly in Lockwood, west Billings, and Yellowstone County.
- Reviewing current MET Transit and Laurel service structures.
- Discussing the full range of technically feasible governance and funding options.
- Considering how property tax reform and the Charter mill cap affect long-term sustainability.

Subsequent meetings narrowed the focus of alternatives. On funding, the committee emphasized that a governance change alone would not solve funding constraints without either higher mill levies or expanded service area contributions.

July 2025 Resident Survey Results

On July 12, 2025, MET and SRF conducted a public mapping exercise at the 34th Annual Strawberry Festival and via an online survey to identify travel destinations and service interests (results in Appendix B: Survey Summary). A total of 256 responses were collected, including 178 online submissions. Of those responses:

- 150 were located within Billings.
- 42 were located in Lockwood.
- 22 were located in Laurel.
- 42 were distributed among unincorporated areas.

The strongest concentration of responses occurred near 1st Avenue and 40th Street in Billings. Lockwood also showed notable clustering along North Frontage Road near Johnson Lane. Survey results reinforced committee discussions indicating:

- Continued demand within Billings.
- Strong interest in service to Lockwood.
- Meaningful interest in Laurel despite its smaller population.
- Limited but present interest in rural areas.

These findings informed both service expansion scenarios and governance discussions regarding regional coordination.

UTD Peer Interviews

Peer interviews were conducted with representatives from four Montana UTDs to better understand formation, governance, funding, and operational lessons. These interviews indicated that successful districts emphasize clear public messaging, simple board/governance structures, and alignment between district boundaries and funding sources. Districts can contract for operations and share administrative services to minimize duplication. Some additional insights are highlighted below, while full meeting minutes are included in Appendix C: UTD Interview Notes.

Big Sky Transportation District

Formed in 1991 to serve a community spanning two counties without municipal government. Big Sky relies primarily on a resort (local-option) tax rather than a property tax levy. Annexation in 2021 required voter approval in both counties and added board members. Key lessons included the importance of simple bylaws, maintaining small, appointed boards, and aligning district boundaries with funding sources.

Gallatin Valley UTD (Bozeman/Streamline)

Formed after Bozeman exceeded 50,000 population and required a 5307 recipient. The previous nonprofit operator was not authorized to receive 5307 funds, prompting creation of a UTD. Formation required 16,000 petition signatures, a public hearing, and an election. Messaging emphasized maintaining service continuity

and creating a single-purpose transit entity. The district now spans multiple municipalities and contracts for operations. Key lessons included proactive communication, strong relationships with county clerks, and clarity around the five-year service requirement within district boundaries.

Great Falls Transit District

Established as a grassroots effort when the City declined to start service. The district has maintained stable boundaries since formation and relies primarily on its mill levy. Leadership emphasized the importance of clear levy messaging, realistic expectations about service improvements, and strong working relationships with county treasurers.

Missoula (Mountain Line UTD)

Missoula's UTD was formed in 1977 and is governed by a seven-member board with city and county appointments. The district has implemented multiple levies over time and operates with substantial autonomy from municipal government. Lessons shared included the importance of county initiation in formation, careful management of annexation and opt-out provisions, and maintaining clear bylaws. Leadership noted that UTDs can feel administratively "quirky" but have proven durable and effective.

Key Interview Themes

Across all UTD interviews, recurring themes included:

- Dedicated revenue improves long-range planning capacity.
- Voter education and tailored messaging are critical to formation success.
- Boundary design should anticipate future growth to reduce tension.
- Governance design (appointed vs. elected boards) can influence political dynamics.
- Formation complexity is manageable with early coordination among jurisdictions.

Other Stakeholder Input: Laurel Transit

Laurel operates a small, grant-dependent demand-response service through a memorandum of understanding with Allies in Aging. The annual operating budget is approximately \$65,000. Laurel leadership expressed openness to MET Transit operating service on Laurel's behalf, even at a higher cost, if service reliability and demand could be met. Fixed-route service was not considered viable for Laurel at this time. These discussions suggest that a purchase-of-service model may be feasible in the near term under either the municipal or UTD governance structure.

PART V: CONCLUSION

This study evaluated governance and funding alternatives available to support MET Transit in the context of structural property tax constraints, rising operating costs, and anticipated service growth pressures. The analysis demonstrated that the challenges facing MET Transit are not the result of a single short-term imbalance, but rather a mix of statutory revenue limits, local Charter provisions, inflationary cost growth, and expanding regional mobility needs.

Under the current municipal structure (Status Quo), MET Transit benefits from administrative consistency, established relationships, and integration with city planning and capital programming. However, it remains constrained by the City Charter mill levy cap and competition within the broader municipal budget framework. Without voter-approved changes or significant supplemental revenue tools, revenue growth is projected to lag behind operating cost growth.

Formation of an Urban Transportation District (UTD) is a structural alternative that would establish a single-purpose transit entity with independent property tax levy authority and flexible boundary design. This model aligns more directly with long-term revenue sustainability and regional coordination goals. At the same time, it would require voter approval, public education, administrative transition, and careful boundary planning. The UTD model maintains fiscal and potentially adds political risk rather than eliminating all risks.

The funding analysis indicated that while supplemental tools such as transportation utility fee adjustments, employer partnerships, marijuana excise reallocation, parking revenues, and joint development may provide meaningful incremental support, property tax authority remains the primary mechanism capable of addressing structural gaps at scale. Governance structure influences the feasibility and durability of such authority. CMAQ was also identified as a meaningful source of operating funds under any governance model.

Regional considerations further complicate the decision on how to move forward. Laurel integration appears feasible in the near term through purchase-of-service arrangements. Lockwood and broader County participation may be viable with additional outreach and research. Growth patterns along the I-90 corridor suggest that governance structures capable of adapting to regional expansion may better align with long-term development trends.

Stakeholder engagement throughout the study underscored several consistent themes: the importance of clearly articulating tradeoffs; the need for a realistic funding strategy tied to service expectations; moderate tolerance for structural change paired with interest in fiscal sustainability; and support for phased approaches that preserve flexibility.

No single alternative provides a risk-free or universally superior outcome. The decision before policymakers is not whether to eliminate tradeoffs, but how to balance fiscal stability, political feasibility, administrative capacity, and regional alignment.

Implementation Considerations

Regardless of the governance pathway, several implementation considerations emerge.

Phased Strategy. A phased approach may reduce risk. Under either model, near-term actions could include pursuing CMAQ-supported operating pilots, refining cost estimates for expansion corridors, and strengthening interlocal coordination with Laurel and other adjacent areas.

Revenue Planning. Incremental revenue tools may serve as bridge funding while longer-term structural decisions are evaluated. If a UTD formation process is pursued, financial projections and public communication strategies should be developed in advance of any ballot measure.

Boundary and Service Alignment. If regional governance is considered, boundary design should anticipate projected growth and clearly communicate service expectations to avoid opt-out pressures or mismatched coverage requirements.

Administrative Transition Planning. Should a UTD be formed, early coordination on asset transfer, labor considerations, federal grant recipient status, and shared services agreements would reduce disruption and uncertainty.

Contingency Planning. If structural governance reform is pursued and not approved by voters, a fallback strategy identifying incremental funding tools and service prioritization should be prepared in advance.

Over the upcoming planning horizon, the central policy question is how MET Transit should be positioned to manage constrained revenues while responding to evolving mobility needs. The comparative analysis presented in this report provides a structured foundation for that decision. Ultimately, the chosen model should reflect local priorities regarding fiscal stability, governance, regional cooperation, and community investment in public transportation.

APPENDIX A: FUNDING ENHANCEMENT ALTERNATIVES REVIEW TECHNICAL MEMORANDUM



MEMORANDUM

To: Rusty Logan
Billings MET

From: Lydia Statz, AICP
William Troe, Director-Transit and Transportation Planning

Date: January 21, 2026

Subject: Funding Enhancement Alternatives Review

Transit Funding Alternatives

Background

Billings Metropolitan Transit (MET) is in a period of potentially stagnating property tax funding levels that will limit the agency's ability to implement service expansion/enhancement to better serve the region. Thus, MET is completing a review of alternatives to property taxes (in addition to fares and advertising revenue) as the source of local funding. The 2025 State of Montana property tax reform bill that lowered property tax revenue from primary residences and shifted more of the burden to short-term rentals and second homes, has the potential impact revenue for Billings MET due to a unique city charter limit on adjusting the mill rate. While most municipalities in the state can adjust the mill levy through an action by the council, in Billings the charter requires a referendum to adjust the mill levy.

The 2025 legislation allowed for a one-time mill adjustment to fill the revenue gap created by valuation adjustments, however, any need to adjust the mill levy going forward would require a vote of the people. Because of these changes, the City is expecting revenues to be flat in 2026 (relative to 2025), decline by about 1.8% in 2027, and then normalize to an expected annual growth rate of about 1.75% in 2028 and onwards. The City typically plans for inflation to increase costs by about 1.5-2% each year, and wages are based on a contract with the local bargaining unit, which is renegotiated regularly. Wages are expected to increase 3.5% next year based on the current contract. As a result, MET is expecting a short-term budget shortfall followed by annual cost increases that will outpace revenue growth.

Historically, MET has received revenue from three main funding sources:

- **Federal Transit Authority Operating and Capital Grants:** These include both formula funding as well as competitive grants. In 2026, this source makes up about 40% of total revenues. While federal funding is not anticipated to be impacted by the property tax

changes, transportation funding will be re-authorized in 2026, and future funding levels are unknown.

- **Local Taxes:** In 2026, MET is anticipating about \$3.7 million in local tax revenue, with \$2.7 million being from property taxes, or about 35% of the total budget. This percentage could be expected to decline over the coming years as tax revenues stagnate and costs continue to increase.
- **Direct Revenues:** Direct revenues include fares, advertising, and other forms of fees paid directly to the transit agency. In 2026, MET is anticipating fares to make up only about 7% of total revenues, with advertising and parking fees at the downtown transit center contributing another 3-4%, for about 10% of the total operating budget coming from direct revenues.

Other minor sources of funding such as state grants, fees for service and the sale of surplus equipment make up the remaining revenue.

Analysis of Funding Options

Parking Fees

The City of Billings collects approximately \$2.6 million in revenue through the parking department, including parking meter income, garage and surface lot permits, and violations. However, the parking department is currently projecting about \$3.3 million in expenses for 2026, partially due to the sale of two downtown parking lots, one of which will be leased back, reducing revenues and creating a new recurring expense.

Through a city reorganization it may be possible to merge the transit and parking departments, allowing parking revenue to supplement transit service. However, while this may provide long-term revenue opportunities, it has the potential of increasing the department's potential shortfall in the short term.

A [parking benefit district](#), which would support improvements by increasing parking fees in a specific area, would be an interim strategy. While this strategy has not been applied in Montana, it may be an option. The increased meter rates would be designed to increase parking turnover and decrease parking congestion in the downtown area, with additional revenues going toward transit service.

Marijuana Excise Taxes

Yellowstone County collects a 3% [excise tax](#) on all recreational marijuana sales, the maximum allowed by state law. A portion of this revenue goes to the City of Billings, estimated to be \$425,000 in 2026. Currently that revenue is dedicated to the construction of City Hall and increasing resources for mental health and substance abuse.

However, the use of excise taxes are under local control, and it may be possible in the future to reallocate a portion of that revenue to fund transit service if it is deemed politically viable. This would require cooperation across City departments and the support of City Council.

Urban Transportation District

In Montana, an [Urban Transportation District](#) is a special taxing district that provides the ability to raise revenue directly for transit services. Districts are created by counties and approved through voter referendums. Districts may extend across city and county boundaries, and provide the ability to levy property taxes to all properties within the specified boundaries.

Establishing a UTD is likely a viable option for MET, but would need to be voter approved as a referendum. Four other UTDs have been established in the state (Great Falls, Big Sky, Missoula, and Dawson County), demonstrating their political feasibility and record of success. Establishing a UTD would require major structural and governance changes for MET, as outlined in a separate technical memo.

By establishing a UTD, MET may increase property taxes outside of the city's mill levy cap in order to provide adequate revenues for transit service. However, taxes levied through a UTD are still subject to the states' mill levy increase cap, which limits annual total tax revenue increases to the average level of inflation over the past 3 years (or a maximum of 4%).

This means that property tax revenues through a UTD are subject to a maximum increase of 4% annually when inflation is high, with the long-term average annual increase likely to be closer to 2-3%. By contrast, property tax revenues levied through the city are subject to the mill levy cap, meaning revenues are likely to increase by approximately the rate of taxable value increase, which historically has been about 2.5% per year. Assuming that both taxable value and inflation continue to increase at approximately the historic average rates, the difference in tax revenue is likely to be within a few percentage points.

As an illustration of the potential revenue impacts of transitioning to a UTD, a hypothetical projection of five years of future revenues is shown in Table 1. The revenue impacts of the mill levy cap are expected to compound over the five years, leading to a potential revenue. These projections are illustrative based on a variety of assumptions and the calculation methods [provided by the State of Montana](#), and do not reflect actual revenues.

Table 1. Five-Year Revenue Generation Comparison – City Property Tax Versus Urban Transportation District Tax Options

Scenario	Previous Year Property Tax Revenue ¹	3-year Inflation Average ²	New Adjusted Property Tax Revenue ³	Maximum Mills (Calculated) ⁴	Actual Mills ⁵	Revenue based on mills	Difference
Year 1							
Transit as City	\$2,680,062	4%	\$2,787,264	11.83	11.71	\$2,758,436	
Transit as UTD	\$2,680,062	4%	\$2,787,264	11.83	11.83	\$2,787,264	\$28,828
Year 2							
Transit as City	\$2,758,436	3%	\$2,841,189	11.77	11.71	\$2,827,396	
Transit as UTD	\$2,787,264	3%	\$2,870,882	11.89	11.89	\$2,870,882	\$43,485
Year 3							
Transit as City	\$2,827,397	2.5%	\$2,898,082	11.71	11.71	\$2,898,081	
Transit as UTD	\$2,870,882	2.5%	\$2,942,654	11.89	11.89	\$2,942,654	\$44,572
Year 4							
Transit as City	\$2,898,082	2.5%	\$2,970,534	11.71	11.71	\$2,970,533	
Transit as UTD	\$2,942,654	2.5%	\$3,016,221	11.89	11.89	\$3,016,220	\$45,686
Year 5							
Transit as City	\$2,970,534	2.5%	\$3,044,797	11.71	11.71	\$3,044,797	
Transit as UTD	\$3,016,221	2.5%	\$3,091,626	11.89	11.89	\$3,091,626	\$46,829

Transportation Utility Fees

Transportation Utility Fees are special assessments levied by the City to support transportation improvements. Billings currently has two Street Maintenance Districts, with funding from these assessments dedicated to street upkeep and capital improvements. In 2026, those two assessments combined are estimated to generate \$17.8 million.

Because these assessments are fees collected through a utility bill, they are exempt from the City's mill levy cap and therefore may be increases to support a budget estimate that exceeds the CIP restricted increase cap. These assessments have historically been adjusted based on rising costs, but the Council directed the city not to increase residential fees in 2026. If politically viable, dedicating revenue from these assessments, paired with a small increase, to support transit improvements and operations may be an option. The median home in 2026 will pay approximately \$216.25 in street maintenance district fees. An increase of approximately 5% would generate an additional \$1 million for transit and increase fees on the median home by \$10.

¹ Year 1 based on 2026 budget. Following years based on projected revenues

² Assumes cooling inflation to 2% average

³ Previous year tax revenue plus inflation

⁴ Calculated based on formula provided by State of Montana

⁵ Updated city charter caps transit mills at 11.71. UTD is not subject to the cap, but is subject to total revenue increase cap.

Joint Development and Transit-Oriented Development

Joint development refers to public-private partnerships to develop or improve land owned by transit agencies. For example, a transit agency may purchase parcels near a current or proposed station or rapid transit line and lease the land to a developer for development. The transit agency then collects revenues as rent payments on the property. As an additional benefit, transit ridership may increase due to increased density near major transit lines.

Some FTA funding may assist in property acquisition or property development, but the success of this strategy is largely driven by market forces. While Billings is growing, other areas of Montana are attracting much higher rates of growth and development. The most obvious area of potential is the downtown transfer station, which may be attractive to developers for a future joint venture.

Employer/Institution Partnerships

Institutional partnerships are sometimes used by transit agencies to increase revenue and provide incentives for local workers to use transit. Generally, major employers or universities in the area purchase transit passes for all employees (typically at a discounted rate), who then have access to unlimited transit rides using their student or employee identification.

This may be especially attractive in Billings as three of the largest institutions in the area are all located on a single corridor – Billings Clinic, Intermountain Health, and Montana State University Billings. Such a program would likely require MET to provide high quality service to these riders, which may mean increased frequency or extended hours.

If 5,000 unlimited passes were purchased at a 50% discount, this would provide about \$840,000 in revenue per year. It may be slightly offset by a decrease in fare revenues as some who would have purchased passes on their own get access to the passes. MET should conduct an analysis to determine whether the increased revenue would be advantageous.

Identified but Quickly Eliminated Ideas

Table 1 below includes additional alternatives that were identified as they generate revenue that is used locally, however, each was eliminated as:

- Implementing would likely result in a negative impact on transit.
- Use of the funds is directed to specific non-transit uses.

Table 1. Identified and Dismissed Revenue Sources

Funding Options	Details	Viability
Increase direct revenue	System may increase fares, or seek additional advertising/partnership opportunities	Fare increase likely not viable – increase in fares generally leads to drop in ridership. Increased advertising revenue may be viable, but unlikely to make a major impact
Resort Tax	A resort tax is MT’s version of a local options sales tax, levied only on hotels, restaurants, bars and resorts.	Not viable. Billings does not meet the state’s definition of “resort community.”
Wheelage tax	Many communities around the country include a “wheelage fee” on motor vehicle registrations to help fund local transportation.	Not viable. Wheelage tax does not exist in MT.
Franchise Fees	Fee added to utility bills by municipalities.	Likely not viable – City settled a class action lawsuit on franchise fees in 2023.

APPENDIX B: SURVEY SUMMARY



MEMORANDUM

To: Rusty Logan, Sarah Graham
City of Billings MET

From: SRF Consulting

Date: September 5, 2025

Subject: Resident Travel Survey

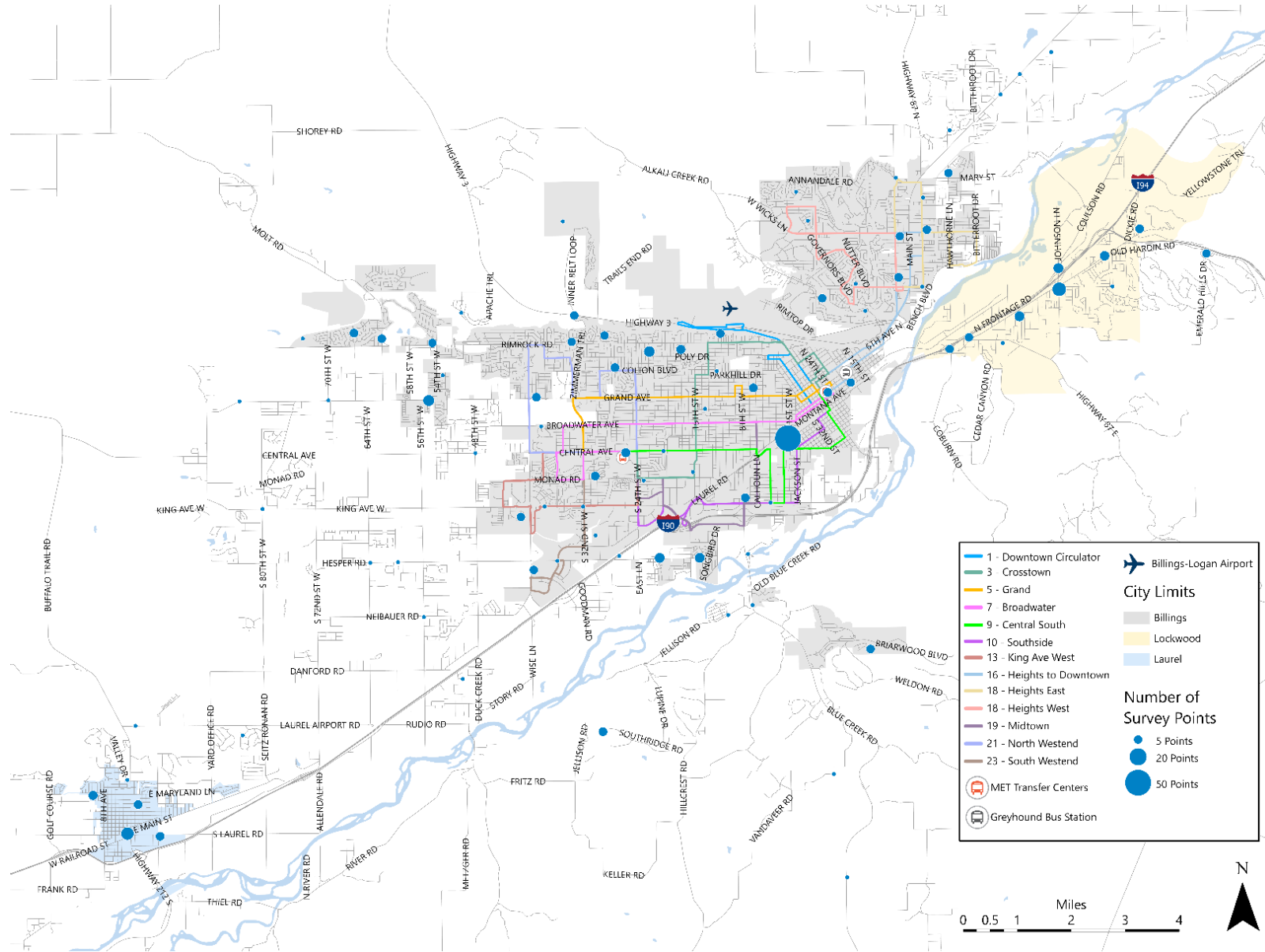
On July 12, 2025, representatives from Billings MET Transit attended the 34th Annual Strawberry Festival in downtown Billings. At the event, a posterboard was displayed for the public to offer input related to destinations they travel to by any mode, including home, businesses, and any other destination. Users were instructed to place a colored dot representing a destination on the poster. A QR code was also displayed on the poster that allowed users to add destination points to an interactive map online. A total of 256 dots were placed, 178 of which were received through the online survey. The results of these exercises are visualized in Figure 1. The map includes dots placed both in-person and through the online survey and are clustered to aid in visualizing concentrations of points.

A significant majority of dots, 214 out of 256, were placed within the boundaries of Billings, Lockwood, and Laurel. In general, the dots within each of the three communities are spread fairly uniformly, except for some specific concentrations. The greatest concentration of responses, with 49 points, is clustered near 1st Ave and 40th St in Billings. Notable clusters also appear along N Frontage Rd in Lockwood, particularly at the intersection with Johnson Ln. Table 1 provides a quantified breakdown of dot placement for each municipality, community, and surrounding area.

Table 1. Number of Dots by Place

Municipality/Community	In-Person	Online	Total
Billings	34	116	150
Lockwood	16	26	42
Laurel	3	19	22
Unincorporated Between Laurel and Billings	14	3	17
Unincorporated South of I90	7	10	17
Unincorporated North of Billings	4	4	8
Totals	78	178	256

Figure 1. Aggregated Survey Results



APPENDIX C: UTD INTERVIEW NOTES



RECORD OF MEETING

SRF Project No. 19202

Project/Meeting Name: Billings MET Transit Funding Sustainability and Governance Study
Big Sky Transportation District Peer Interview

Date: September 5, 2025

Location: Teams

Attendees: Jacob Connor (SRF), David Kack (BSTD Transit Coordinator), Darren Brugmann (BSTD Executive Director)

Prepared by: SRF Consulting

Purpose of Meeting

The purpose of interviewing Big Sky Transportation District (Skyline) was to understand how the UTD started, as well as how it is governed, funded, and operated today. The interview included Jacob Connor with SRF, as well as David Kack (BSTD Transit Coordinator) and Darren Brugmann (BSTD Executive Director).

Summary of Meeting

Formation & origin

- Formed in 1991 because the Big Sky community spans Gallatin and Madison Counties and isn't a municipality—so a UTD made the most sense.
- Early service ("Snow Express") was seasonal in Big Sky and contracted out from the start; no FTA funding initially.
- No mill levy then or now. Core local funding is the resort (local-option) sales tax, which explicitly permits spending on transit; ~\$1.5M expected this year.
- Resort tax exists only in approved tourism communities (<5,000 residents) and is governed by its own board.

Boundaries, annexation & service area

- Annexation (May 4, 2021): Expanded to match the resort-tax boundary because they were serving areas outside the district. Required votes in both counties; added two Madison County board members.
- Who votes: Registered voters in the expansion area (not existing district residents). Many second-home owners aren't registered locally. UTD lines don't have to follow other political boundaries.
- Neighbor coordination: With the new Gallatin Valley UTD, the goal is for Skyline to operate to Four Corners and then have a transfer to Bozeman service.

- Other local services: Madison County Senior Center (in Ennis) operates 5311-funded trips to Big Sky/Bozeman (2 mills) and promotes rides as open to anyone. Counties can levy a senior transportation mill; could serve as match.
- Outside-boundary service: They run to Bozeman (mainly workers and tourists). Considering a UTD mill levy (which they do not currently have) especially to include Four Corners, which currently doesn't contribute to the resort tax funding.
- Current boundary doesn't touch Gallatin Valley UTD; a commissioner asked why the two UTDs aren't connected—merger talk could happen in the future.

Governance, bylaws & relationships

- Preference for a small, appointed board (about 5–7). Monthly meetings are helpful but don't need to be codified in bylaws. Keep bylaws simple.
- Example elsewhere: Gallatin Valley UTD specifies role-based seats (e.g., rider rep, MSU), but Big Sky favors less prescription.
- Interlocals: They have one with the resort-tax district; funding moved from annual applications to 3-year agreements.
- They'd like interlocal agreements with both counties so they don't have to ask for money every year.

Funding & revenues

- Primary local source: Resort tax.
- If they pursue a UTD mill levy, their message would be: property tax funds service inside the zone; resort tax covers service outside the UTD zone.

Budgeting, service design & paratransit

- They must provide ADA paratransit, but demand is low because most riders are able-bodied.
- Microtransit (Big Sky Connect) gets a handful of wheelchair trips.
- Intercity route has different rules (no ¾-mile ADA overlay)
- Fixed route is primarily within Big Sky, up and down the mountain.

Legislation, politics & closing notes

- Local debate elsewhere about elected vs. appointed boards; Big Sky prefers appointed to avoid anti-transit candidates running to eliminate service. Smaller board is viewed as better.
- SB 260 discussion: residents wanted tax dollars generated in Big Sky to stay local (schools/hospitals). A new district structure keeps funds in Big Sky even when facilities are technically in Gallatin County; if a new mill is added, residents will want assurance money stays local.
- Federal reauthorization uncertainty could change what they ask for.
- They're watching Billings/Laurel connectivity; curious how it plays out.

- MTA/MDT Rural Passenger Needs Study update underway; many small communities want links to bigger cities.
- State puts very little into transit; TransADE is small and tied largely to senior trips—there's interest in finding more state funding sources.

SRF Project No. 19202

Project/Meeting Name: Billings MET Transit Funding Sustainability and Governance Study
Gallatin Valley UTD Peer Interview

Date: September 5, 2025

Location: Teams

Attendees: Jacob Connor (SRF), Sunshine Ross (Gallatin Valley UTD Director)

Prepared by: SRF Consulting

Purpose of Meeting

The purpose of interviewing the Gallatin Valley UTD (Bozeman, Streamline Bus)) was to understand how the UTD started, as well as how it is governed, funded, and operated today. The interview included Jacob Connor with SRF, as well as Sunshine Ross (Gallatin Valley UTD Director).

Summary of Meeting

Formation & origin

- Trigger: Bozeman crossed 50,000 population; the nonprofit operator couldn't be the 5307 recipient, and neither the City nor County wanted to run service.
- A feasibility study pointed to forming a UTD to keep service seamless and cover fast-growing unincorporated areas SW of Bozeman.
- Process: gathered 16,000 certified signatures (needed ~13,000), held public hearing, then election.
- Messaging: "single-purpose transit entity," no automatic tax, avoids service cuts, and can operate beyond city boundaries.
- A broad stakeholder group plus a separate, volunteer "Yes for Streamline" campaign handled outreach; consultants helped tailor messages by community (environmental benefits resonate in Missoula; independence/economy more in Bozeman/Belgrade).
- Timing: placed on the May election (alongside school ballot items). Support from newspapers/chambers mattered.

Boundaries, annexation & service area

- District drawn to include Bozeman, Belgrade, and Four Corners, following roads/rivers/parcels; coordinated with planners across jurisdictions.
- District formed before the MPO; MPO followed similar boundaries.
- New state law: must provide service within 1.5 miles of the boundary within 5 years—they're exploring commuter/microtransit zones and potential premium on-demand outside core.

- Proposed expansions (e.g., Belgrade commuter) and microtransit zones are under consideration; some riders may “opt out” if expectations aren’t clear.

Governance, bylaws & relationships

- Board preference: appointed members to maintain accountability while avoiding politicized races; initial concept was 3 appointees from each political jurisdiction, plus designated seats (e.g., one elected official, one funder/partner, one rider/representative from each).
- Advisory structure of committee to set up the UTD: 13-member formation committee; board now uses standing committees (planning, operations, finance) and may add a rider advisory committee when pursuing a levy.
- Campaigning: the citizen campaign was separate from official agency communications per legal guidance; digital ads and mailers were targeted.
- Key partners: HRDC (senior & disability services provider) still handles senior trips and now provides back-office services (IT, HR, finance) to the UTD under contract.

Funding & revenues

- Shifted from 5311 (largest rural) to 5307 (small urban)—lost roughly \$400k on the state allocation formula change.
- No fares (never have) to build partner support.
- Local contributions: City of Bozeman, Belgrade, County one-time purchases (which they have funded almost annually), MSU admin contribution + \$10 student fee
- TransADE support continues; business improvement district can’t fund ops; TIF might.
- Considering a mill levy or bonds later—did polling to test tax tolerance and messages.
- STIC: Billings gets it; Bozeman doesn’t yet but could close the funding gap if they qualify.
- Communications choices (e.g., bus wraps with historic imagery) reflect community preference against a “big-city” look.

Budgeting, service design & paratransit

- Organization is lean (2 UTD employees); they contract fixed route and paratransit now (previously purchased fixed route and operated paratransit in-house).
- HRDC formerly owned the facility/vehicles; as UTD became the FTA recipient, assets were transferred—a long process. Shared office space; HRDC leases vehicles from UTD for now (could change later).
- Fixed-route ops contracted to Jefferson Lines at their facility; UTD vehicles are housed there.
- Paratransit: UTD operates ADA paratransit; seniors remain with HRDC due to unique funding streams.

Legislation, politics & closing notes

- Tailor messages to local values (independence and access in conservative areas; equity/environment elsewhere).

- Bring clerks and county commissioners in early; having commissioners on the formation committee eased board design and the ballot path.
- Coordinate with other ballot items; being on the same ballot as schools can help.
- Proactively explain costs, service tradeoffs, microtransit options, and the 5-year boundary-service rule to manage opt-out risk.
- Build strong ties with the clerk's office.
- Kept the well-known Streamline brand publicly, but use the formal "Gallatin Valley UTD" name in government contexts.
- Expected more skepticism in Belgrade; adjust messaging accordingly.
- For Billings: engage chambers/newspapers early, consider a separate citizen campaign, and map service growth tied to the 5-year requirement.

SRF Project No. 19202

Project/Meeting Name: Billings MET Transit Funding Sustainability and Governance Study
Great Falls Transit District Peer Interview

Date: September 5, 2025

Location: Teams

Attendees: Jacob Connor (SRF), Nadine Hanning (Great Falls Transit District)

Prepared by: SRF Consulting

Purpose of Meeting

The purpose of interviewing the Great Falls Transit District General Manager was to understand how the UTD started, as well as how it is governed, funded, and operated today. The interview was a one-on-one conversation with Jacob Connor and Nadine Hanning (GTD general manager).

Summary of Meeting

Formation & origin

- Transit existed as a private bus in the 1950s–60s, then disappeared.
- Residents organized to create a UTD because the city said it didn't have money to start service. It was never a municipal service.
- Nadine unsure if there was municipal/political help gathering signatures; it seemed grassroots.

Boundaries, annexation & service area

- The district boundary hasn't changed since formation. With the growth of the city, the UTD is now smaller than the City of Great Falls.
- Some city residents only want service inside the city; others have asked for growth. Nadine's recommendation: let the district grow with the city to match the city boundaries to reduce tension related to which parts of the city are within the UTD boundary and which parts are not.
- Expansion historically stalled due to process complexity, lack of staff capacity, and fear that opening the boundary discussion could spark "opt-out" interest.
- The TDP raised expansion ideas in the community
- Relationship with the city is mostly around MPO/FTA planning; the city has one board appointee.
- Board: 5 members—3 elected, 1 city appointee, 1 county appointee. Elections are defined in statute, but candidate interest is often low. Nadine suggests that a smaller board is easier to manage. Concern with elected board members is that people who oppose transit can run.

- One adjoining township has service, but in general, service outside the district is avoided because taxpayers inside the district may feel underserved. People don't complain about paratransit going beyond the city limit though.

Governance, bylaws & relationships

- Bylaws are intentionally generic to avoid conflicts with other laws, to keep procedures simple, and to eliminate the need to update bylaws as things change.
- "Must-have" bylaws provisions they value:
 - Authority for the board to hire a manager or a management company and to delegate federal grant signature authority.
 - Clear election procedures, kept current with Montana law.
- Finances flow through the county treasurer (as tax collector), so a strong working relationship with the county is essential.
- In general, it seems that residents prefer funding a standalone transit entity rather than paying more in "city money" taxes.
- Partnerships: good ties with United Way and disability/vision organizations.
- GF UTD serves as the local lead for 5310 money, they coordinate planning and fleet eligibility rankings among participating nonprofits; state actually procures vehicles

Funding, revenue, budgeting

- Local revenue is almost entirely the UTD mill levy; no ongoing alternative local sources in use.
- They have not pursued federal competitive grants (e.g., Low-No) much.
- Montana has no statewide sales tax; some resort/local-option taxes exist elsewhere.
- State TransADE support has fluctuated; it was higher during/after COVID but has dropped.
- GF has other taxing districts (schools, special improvements, parks, boulevard), but they're not seen as direct competitors to UTD—though any concurrent ballot measures are watched closely.
- Original expectation at formation was ~14 mills (1970s).
- Mill increases now follow an inflation formula that allows only a portion of inflation; once you start with a base, you're subject to that formula.
- GF UTD is a 5307 direct recipient; 5307 is mostly used for operating, sometimes capital.
- 5339 capital typically comes via the state; when that's not enough, they tap 5307 or local levy.
- Small Transit Intensive Cities (STIC) can add funds if STIC performance thresholds are met.
- They keep a tight operating budget; holding large undesignated reserves can undermine a case for mill increases.
- Paratransit is broadly provided inside the district and sometimes beyond fixed-route limits, reflecting strong local support for disability access.

- Few complaints about ADA coverage
- Very few requests for any communities to exit the district over the past five years.
- Currently strong local revenue is being directed to capital, but capital needs still exceed available funds.
- Nadine suggests GFTD is likely getting more funding from its levy than Billings gets from city funding.
- Recent property-tax calculation changes mean GFTD millage will rise regardless.

Public & political dynamics

- Stories about people who rely on transit (e.g., medical trips) resonate more than abstract budget arguments.
- Board seats tend to attract people who either strongly support or strongly oppose transit, so recruitment and retention can be challenging.
- Manage expectations about what a levy can buy. Many assume a levy equals “a lot more service,” but even one new route can require taxing many additional properties.
- Communicate costs and tradeoffs clearly up front to prevent disappointment later.

Jordan Hess – Mountainline

October 15, 2025

Also consider talking with Bozeman (from Jordan – more recently created UTD)

UTD organized in 1977.

Will send bylaws.

Board Make Up:

- 7 members (3 appointed by Mayor, 3 by county, 1 rotating appointed by city and then county)
- Updated in the 1980s.
- Rotating seat has gone to same person for quite some time.
- No politicians (many times do not understand transit).
- No politicians has at time been a weakness – sometimes get sideways with local politics.

County commission has to (most likely) initiate effort – Yellowstone County is not always on-board with adding new departments/political subdivisions – they have not added a UTD while others have. (Jordan's opinion).

Glendive – 5K people. Has a UTD. Tough to get participants. Interpreting it as in Glendive board is elected.

Board members cannot be compensated – In legislation.

UTD has worked really well. It is clunky and quirky, but seems to work well.

County collects taxes generated.

Three levies over time:

- Original from 1976 (Floats now)
- 2013 added new levy (14.5 mills – is a fixed levy – does not float)
- XXXX (20 mills – also fixed)

1980s – 15.10.420 (Code) limited levy increases to ½ rate of inflation. Strangled local government revenues. Some exceptions. Made cities and counties get creative...create assessment districts and similar. There have been adjustments to address annexation. Counties have gotten "creative" with special assessments and other assessment districts.

Mills have been translated to dollars. So each year estimate the dollars needed, but cap at ½ rate of inflation is an increase then convert to mills to be applied.

Missoula is the only incorporated city in Missoula County.

Having some areas wanting to leave the district. Must petition to leave (process is outlined in the bylaws). Outside the city limits of Missoula – are not getting service.

Fixed route service extends a bit into Missoula County. This is somewhat due to the nature of development in the Missoula area (development into valleys between mountains).

Intergovernmental Agreements – Not too many. The UTD operates with a high degree of autonomy. As there is only Missoula and the county.

Will send resolutions on creation and modification. Bill sent email requesting.