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Legislative Fiscal Bureau

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June 1, 1999 Joint Committee on Finance Paper #915

Transportation Fund Condition Statement (DOT -- Transportation Finance)

[LFB 1999-01 Budget Summary: Page 574, #1]

At the time the Governor submitted AB 133, the transportation fund had an opening balance projected at $9,997,800 and an estimated closing balance of $6,010,500. Since that time, the Department of Transportation (DOT) has reestimated revenues, our office has reviewed those reestimates and the Committee has taken some action affecting the transportation fund. As a result, the closing balance for 1999-01 has been reestimated at $16,821,400. The detail supporting that reestimate is displayed in the following fund condition statement.

	1999-00	2000-01
Unappropriated Balance, July 1	$25,553,600	$29,467,800
Revenues		
Motor Fuel Tax	$802,916,200	$824,412,400
Vehicle Registration Fees	360,068,000	362,115,500
Less Revenue Bond Debt Service	-92,601,500	-101,472,500
Driver's License Fees	30,941,300	31,479,600
Miscellaneous Motor Vehicle Fees	14,558,200	14,866,300
Aeronautical Taxes and Fees	9,867,100	9,702,600
Railroad Revenue	11,952,100	12,229,500
Motor Carrier Fees	3,306,200	3,566,200
Investment Earnings	7,228,000	7,178,000
Miscellaneous Revenue	12,036,000	13,913,900
Total Annual Revenues	$1,160,271,600	$1,177,991,500
Total Available	$1,185,825,200	$1,207,459,300
Appropriations and Reserves		
DOT Appropriations	$1,138,705,500	$1,161,373,200
Other Agency Appropriations	16,774,500	17,435,600
Less Estimated Lapses	-3,000,000	-3,000,000
Compensation and Other Reserves	3,877,400	14,829,100
Net Appropriations and Reserves	$1,156,357,400	$1,190,637,900
Unappropriated Balance, June 30	$29,467,800	$16,821,400

Opening Balance

The current projected opening balance of $25,553,600 for 1999-00 is $15,555,800 higher than previously projected due to higher estimates of total projected revenues in 1998-99 and lower than projected debt service payments on outstanding transportation revenue bonds. The changes in estimated 1998-99 revenues are, as follows: (a) a $11,400,000 increase in the estimate of motor vehicle fuel tax revenues, due to higher than projected fuel consumption; (b) a $3,097,800 increase in the estimate of motor vehicle registration revenues, due to greater than projected registrations and title transactions and lower than projected debt service costs on transportation revenue bonds, which has the effect of increasing registration fee revenues deposited to the fund; (c) a $2,506,700 increase in the estimate of investment earnings, due primarily to higher than projected cash balances in the transportation fund; and (d) a $1,448,700 decrease in the estimate of aeronautical and railroad property tax revenues, due primarily to disputed, prior-year omitted property amounts that are not expected to be collected.

Motor Vehicle Fuel Tax Revenues

Based on 1998-99 projections, motor vehicle fuel tax collections will comprise 68.9% of transportation fund revenues. Over the 1999-01 biennium, fuel tax revenues are estimated to be $7.8 million lower than the amounts originally included in the bill. When the bill was submitted, the motor fuel tax rate was 25.4 cents per gallon and the rate on April 1, 1999, was projected to increase to 25.8 cents per gallon, which has occurred. However, one of the factors leading to lower projected revenue relative to earlier projections is that the reestimated fuel tax rates, effective in April, 2000, and April, 2001, are below the rates originally estimated, due to lower inflation projections for 1999 and 2000.

Changes in Estimated Fuel Tax Rates

Tax Rate as of April 1	Original Estimate	Revised Estimate	Difference
1999	25.8¢	25.8¢ (Actual)	0.0 ¢
2000	26.4	26.3	-0.1
2001	27.1	26.9	-0.2

A two-factor indexing formula, consisting of prior-year inflation and changes in prior-year consumption, existed prior to 1997 Act 27, which removed the consumption adjustment factor, effective with the April 1, 1998, indexing calculation. As a result, the fuel tax rate is indexed, on April 1 of each year, only by the rate of inflation in the previous calendar year. When AB 133 was submitted, the April 1, 2000, and April 1, 2001, tax rate estimates shown in the above table were based on an inflation factor of 2.4% for calendar year 1999 and 2.7% for calendar year 2000. Since the bill was introduced, inflation projections for 1999 and 2000 have been lowered to 2.0% for 1999 and 2.4% for 2000, using April, 1999, inflation estimates from Standard and Poor's DRI, which results in the lower estimate of fuel tax rates.

Relative to earlier estimates, consumption of taxable gallons of motor fuel is expected to be slightly lower in the biennium, which also explains some of the reduction in fuel tax revenue. The following table indicates the projected consumption of taxable gallons of motor fuel compared with DOT's original estimates.

Taxable Gallons of Motor Fuel
(Gallons in Millions)

Fiscal Year	Original Estimate	Revised Estimate	Difference	Percent Change
1998-99	3,052.2	3,096.7	44.5	1.46%
1999-00	3,093.0	3,098.5	5.5	0.18
2000-01	3,134.3	3,118.4	-15.9	-0.51

While consumption of motor vehicle fuel is expected to be greater in 1998-99 than initially projected, DOT's econometric model forecasts that the size of those increases will not be sustained in 1999-00 and 2000-01. Among the factors contributing to the lower growth are the return to higher fuel prices and a newer, more fuel efficient fleet of vehicles, resulting from a larger than normal increase in new vehicle registrations in 1998.

Vehicle Registration-Related Revenue

Gross vehicle registration revenue is projected to be $1,728,000 higher than originally estimated for 1998-99, but is expected to be $1,950,400 lower than originally estimated for the 1999-01 biennium. Gross registration revenue includes base registration revenue, as well as other registration-related revenue, including late fees, title fees, renewal of inspection and maintenance registrations and other minor revenue sources.

Relative to earlier estimates, base vehicle registration revenues are projected to remain the same in the biennium ($300,000 higher in 1999-00 and $300,000 lower in 2000-01). Overall, base registration revenues are estimated to increase by 5% in 1999-00, primarily due to biennial registrations, and slightly over 1% in 2000-01. Removing the effect of biennial registrations, the other base registration revenues are forecast to grow by 3.2% in 1999-00 and 2.9% in 2000-01.

The primary reduction in other registration revenues, compared with earlier estimates, is a decrease in the amount of late fee revenue that is projected to be collected in the biennium.

Relative to the earlier estimate, current projections reduce the amount of revenues expected from registration late fees by $951,400 in 1999-00 and $475,700 in 2000-01. The vehicle registration late fee was first effective in October, 1998. DOT indicates that the current estimate has been adjusted based on: (a) early actual data, which is lower than initially anticipated; (b) an earlier than anticipated change in registrant behavior to pay the fee on-time; and (c) a lower than anticipated number of registrants attempting to avoid the late fee by paying at a DOT service center, and as a result, incurring a DOT counter service fee.

DOT is also projecting title fee revenue amounts that are $300,000 lower in 1999-00 and $200,000 lower in 2000-01 than the estimates reflected in the bill. This reflects a projected return to a level of titling activity that is more consistent with the historical trend, rather than the higher than normal increase in vehicle title transfers that occurred in 1998.

Earlier Committee action also affected DOT's registration revenues, as follows: (a) revenue increases of $170,000 in 1999-00 and $289,000 in 2000-01 associated with denying the Governor's recommendation to repeal the financial institution registration and title transaction fee; and (b) a revenue decrease of $482,300 in 2000-01 associated with the transfer of the registration and titling of certain mobile homes to the Department of Commerce.

A minor adjustment in debt service on transportation revenue bonds, which is reflected as a reduction to registration revenues, accounts for a further reduction in net registration revenues. Debt service is expected to be $2,000 higher in 1999-00 and $20,300 higher in 2000-01 to reflect the additional bonding included in the Building Commission's 1999-01 state building program recommendations.

Other Revenues

Based on updated information on actual collections, current forecasts of changes in the statewide average tax rate and the incorporation of the administration's estimated fiscal effect of extending the computer exemption to this property, the revenues associated with the ad valorem taxes on aeronautics and railroad property are projected to be higher by: (a) $1,202,600 in 1999-00 and $802,400 in 2000-01 for aeronautics property; and (b) $862,400 in 1999-00 and $497,900 in 2000-01 for railroad property.

DOT's current estimates include increases in investment earnings of $1,353,000 in 1999-00 and $1,352,000 in 2000-01, compared with earlier projections. The increase is primarily due to higher projected fund balances, due to recent increases in the total transportation budget.

An earlier action by the Committee to delete the Governor's recommendation related to third-party driver license testing resulted in a $60,000 increase in estimated driver's license fees in 2000-01.

Appropriations and Reserves

The appropriation of transportation funds during the 1999-01 biennium has been affected by the following actions of the Committee, which total to an increase in expenditures of $98,200 in 1999-00 and $656,700 in 2000-01: (a) a reestimate of the motor fuel tax revenue sum sufficient appropriations and the corresponding transfers to the water resources, snowmobile and all-terrain vehicle accounts of the conservation fund that will increase expenditures by $521,800 in 1999-00 and $880,800 in 2000-01; (b) a decrease of $62,700 in 2000-01 associated with the transfer of the registration and titling of certain mobile homes to the Department of Commerce; (c) a decrease of $64,900 in 2000-01 associated with a modification to the Governor's recommendation to provide trauma center funding; and (d) executive action on a portion of DOT's 1999-01 budget that reduced expenditures by $423,600 in 1999-00 and $96,500 in 2000-01.

Based on recent trends in the value of terminal property and current forecasts of the statewide average tax rate, it is estimated that the amounts needed to fund the sum sufficient appropriation for the terminal tax distribution will be higher than the amounts in the bill by $190,800 in 1999-00 and $201,900 in 2000-01.

In addition to these appropriation changes, a minor adjustment to DOT's estimate of the reserves necessary to fund increases in pay plan, risk management, space rental and various other DOA chargeback services, including payments for municipal services, appears to be warranted. It is estimated the reserve amounts could be reduced by $14,000 in 1999-00 and $31,100 in 2000-01 to reflect a smaller increase in the amount that DOA will charge back to DOT for payments made to municipalities for municipal services provided to DOT facilities.

Summary

As a result of the preceding revisions by DOT, this office and actions of the Committee, the original estimates of transportation fund revenues are increased by $3,164,600 in 1999-00 and reduced by $6,717,000 in 2000-01. The revised estimates of transportation fund revenues equal $1,160.3 million in 1999-00 and $1,178.0 million in 2000-01. Changes to appropriations and reserves result in total estimated appropriations and reserves of $1,156.4 million in 1999-00 and $1,190.6 million in 2000-01. Given the estimated opening balance of $25,553,600, combining the revised estimates of revenues and appropriations produces June 30 closing balances estimated at $29,467,800 in 1999-00 and $16,821,400 in 2000-01.

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June 1, 1999 | Joint Committee on Finance | Paper #916

Federal Highway Aid (DOT -- Transportation Finance)

[LFB 1999-01 Budget Summary: Page 575, #2]

CURRENT LAW

The federal government provides highway aid to the states in the form of authorization to obligate funds from the federal highway trust fund. The authorization is approved on a multi-year basis, but Congress annually limits how much of that authorization can be obligated. The limit that is place on obligation authority determines the spendable amount of federal highway aid.

The state budgets for federal highway aid by estimating the total amount of obligation authority the state will receive during the two federal fiscal years that correspond to the two state fiscal years of the biennium. This funding is apportioned among various FED appropriations in DOT. The amounts in the Chapter 20 appropriations schedule reflect the intent of the Legislature on how these funds should be spent, but DOT may spend more or less than the appropriated amount if the total amount of federal highway aid is more or less than the amount estimated. If the difference between the amount estimated and the amount received exceeds 5%, then DOT must submit a plan to the Joint Committee on Finance for adjusting the Department's appropriations to reflect the revised federal aid amount. The Committee may approve or modify and approve this plan.

GOVERNOR

Reestimate federal highway aid at $484,858,300 in 1999-00 and $495,681,200 in 2000-01. The following table shows, by appropriation, how the bill would allocate federal aid during 1999-01. The first column shows the modified base level for each appropriation. The base includes the amounts appropriated by 1997 Act 27 (totaling $345,000,000), plus: (a) $500,000 provided for railroad crossing improvement by the Joint Committee on Finance at its September, 1998, meeting under s. 13.10; (b) the allocation of $120,000,000 in 1999 federal aid and

$7,092,000 in 1998 federal aid by DOT's plan for allocating amounts that the state received above the amounts appropriated for 1998-99 by 1997 Act 27; and (c) 1999-00 standard budget adjustments. The second and third columns show the funding recommended by the Governor for each year.

Appropriation	Base Plus Standard Budget Adjustments	Governor 1999-00	Governor 2000-01
Rail Passenger Service	$3,071,300	$3,341,300	$3,675,400
Local Bridge Improvement	26,288,200	26,288,200	26,288,200
Local Transportation Facility Improvement	71,379,700	71,379,700	71,379,700
Transportation Enhancements Grants	6,248,000	6,248,000	6,248,000
Railroad Crossing Improvement	3,549,300	3,549,300	3,549,300
Surface Transportation Grants	2,720,000	2,720,000	2,720,000
Congestion Mitigation/Air Quality Improvement	12,498,500	12,498,500	12,498,500
Major Highway Development	55,620,100	57,328,100	57,948,500
State Highway Rehabilitation	274,408,700	283,280,100	292,828,300
Highway Maintenance and Traffic Operations	880,000	1,194,000	1,194,000
Highway Administration and Planning	5,300,000	5,700,400	5,700,400
Departmental Management and Operations	8,530,700	8,802,700	8,796,100
Motor Vehicle Emission Inspection and Maintenance	2,052,600	2,528,000	2,854,800
TOTAL	$472,547,100	$484,858,300	$495,681,200

DISCUSSION POINTS

1. The amount estimated in the bill for federal fiscal year (FFY) 2000 is $19.9 million above the $465.0 million the state will receive in FFY 1999, and the amount estimated for FFY 2001 is $30.7 million above the FFY 1999 amount. Total federal highway aid in state appropriations in 1998-99 is higher than the $465.0 million amount because some FFY 1998 highway aid was appropriated in 1998-99. Consequently, the total above-base increase provided in DOT's federal highway aid appropriations by the bill is $12.3 million in 1999-00 and $23.1 million in 2000-01.

2. The current multi-year federal transportation authorization act, titled the Transportation Equity Act for the 21st Century (TEA-21), includes a provision that automatically increases state aid amounts if revenue receipts in the federal highway trust fund exceed amounts estimated by the act. The President's FFY 2000 budget, which was submitted in February, estimates

that this provision will result in an additional $1.5 billion for the highway program. Because of this increase, Wisconsin may receive more federal highway aid in FFY 2000 than is estimated under the bill.

3. Based on federal highway trust fund revenue estimates done by the Office of Management and Budget (OMB), Wisconsin would receive $502.5 million in FFY 2000, which would be $17.6 million higher than the 1999-00 amount in the bill. Based on projections of future receipts to the federal highway trust fund, the state would receive $503.6 million in FFY 2001, which would be $7.9 million higher than the 2000-01 amount in the bill. These figures are based on an assumption that TEA-21 provisions related to the distribution of revenue increases to the states are not changed. In addition, these estimates assume that the state will receive an amount of the increase that is proportional to Wisconsin's share of the total amount that would be distributed to the states without any revenue increase.

4. Under TEA-21, the additional revenue received by the highway trust fund would automatically be distributed to the states according to the formulas for apportioning highway aid. The President's budget, however, would distribute a portion of the additional trust fund revenue to other transportation programs. For instance, the President would provide additional funding for traffic safety programs and mass transit aid. Also, some of the additional funding would be provided in the highway program, but would be allocated by the Federal Highway Administration in discretionary grant programs. If the President's proposal were approved as submitted, Wisconsin would receive an estimated $489.2 million in FFY 2000, which would be $4.3 million more than the 1999-00 amount in the bill.

5. The Congressional budget resolution for FFY 2000, agreed to on April 15, 1999, contains a statement that Congress assumes that the President's proposal for distributing additional highway trust funds "will not be implemented, but rather any of these funds will be distributed to the States pursuant to . . . TEA-21." The final decision on how the additional aid will be distributed, however, will not be made until federal appropriations bills are passed in late summer.

6. If the estimates of federal highway aid contained in the budget bill are too high or too low, DOT would adjust encumbrances accordingly and would choose which appropriations to modify. If the difference is greater than 5%, however, DOT would have to submit a plan to the Joint Committee on Finance for making the adjustments.

7. Although the Committee would be given the opportunity to reallocate aid if the amounts actually received differ from the estimates by more than 5%, the difference between the estimates contained in the bill and the amounts that the state would receive if the full amount of additional trust fund revenues were distributed using the TEA-21 procedures is less than 5%.

8. Most states, including Wisconsin, typically receive an amount of additional federal aid, usually in late summer or early fall, from a redistribution of obligation authority that had been set aside for activities managed by the Federal Highway Administration, such as highway research contracts, but which was not fully used. In addition, any federal highway aid that is not used by a

state will be redistributed to other states. For FFY 1998, Wisconsin received $5.1 million of redistributed funds. The estimates of federal aid for FFY 2000 and FFY 2001 do not include any amounts that the state may receive through redistribution in those years.

9. Since DOT will probably not be required to submit a plan to the Committee for allocating additional aid, even if the estimate of federal highway aid in the bill is not modified, it is likely that the Legislature's only involvement in allocating this aid will be in the budget. Reflecting a higher level of federal aid in the budget may allow a more thorough examination of competing priorities for all transportation revenues. Waiting until the actual aid amounts are known essentially precludes any opportunity to adjust funding levels for programs not receiving federal aid. Conversely, if an estimate is used in the budget that is too high, the impact would likely be limited to those programs using federal aid.

SUMMARY

The bill reflects estimated federal highway aid of $484.9 million in 1999-00 and $495.7 million in 2000-01. Based on current federal law, projections of federal highway trust fund revenues and Wisconsin's current share of nationwide federal aid, the state could receive as much as $502.5 million in 1999-00 and $503.6 million in 2000-01. These amounts are $17.6 million higher in 1999-00 and $7.9 million higher in 2000-01 than the amounts in the bill. These figures do not include any redistribution of federal highway aid obligation authority. The actual amounts the state will receive will not be known until after Congress passes the FFY 2000 and FFY 2001 appropriation bills.

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June 1, 1999 Joint Committee on Finance Paper #917

Terminal Tax Distribution (DOT -- Transportation Finance)

CURRENT LAW

Taxes paid by any railroad company derived from, or apportionable to, docks, ore yards, piers, wharves, grain elevators and other terminal facilities are distributed annually from the transportation fund to the towns, villages and cities in which these facilities are located. The amounts are calculated and certified by the Department of Revenue, on or before August 15 of each year.

GOVERNOR

Estimate the annual payments from the transportation fund for the terminal tax distribution at the base level of $855,500 SEG.

MODIFICATION

Reestimate the sum sufficient payment amounts at $1,046,300 SEG in 1999-00 and $1,057,400 SEG in 2000-01.

Explanation: Terminal tax payments are calculated by multiplying the value of terminal storage property held by railroads by the statewide average effective tax rate. Because the value of terminal storage property held by these companies has grown in recent years and that growth is anticipated to continue, higher terminal tax payments are estimated for the 1999-01 biennium. The increase in the estimates ($190,800 SEG in 1999-00 and $201,900 SEG in 2000-01) was previously reflected in the Bureau's estimated transportation fund condition statement (Paper #915), so recognizing these amounts will not decrease the balance relative to the amounts previously reported.

Modification	SEG
1999-01 FUNDING (Change to Bill)	$392,700

Prepared by: Al Runde

TRANSPORTATION

Transportation Finance

LFB Summary Items for Which No Issue Paper Has Been Prepared

Item #	Title
3(part)	Revenue Bonding for Major Highway Construction and Administrative Facilities
4	Debt Service Reestimate

LFB Summary Item to be Addressed in a Subsequent Paper

Item #	Title
5	Ad Valorem Tax Exemption for Computers and Computerized Equipment

Transportation

Local Transportation Aid

(LFB Budget Summary Document: Page 578)

LFB Summary Items for Which Issue Papers Have Been Prepared

Item #	Title
1	General Transportation Aid -- Funding Level (Paper #925)
2	General Transportation Aid -- Municipal Minimum Guarantee (Paper #926)
4	General Transportation Aid -- Local Highway Mileage (Paper #927)
6(part)& 7(part)	Mass Transit Operating Assistance -- Tier A Funding Level and Formula Changes (Paper #928)
6(part)& 7(part)	Mass Transit Operating Assistance -- Tier B and C Funding Level and Formula Changes (Paper #929)
8	Mass Transit Operating Assistance -- Local Match Requirements (Paper #930)
-	Mass Transit Operating Assistance -- Basis for Aid (Paper #931)
-	Lift Bridge Aid (Paper #932)

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June 1, 1999 | Joint Committee on Finance | Paper #925

General Transportation Aid -- Funding Level (DOT -- Local Transportation Aid)

[LFB 1999-01 Budget Summary: Page 578, #1]

CURRENT LAW

Base funding for general transportation aid is $326,483,400 SEG ($247,739,100 for municipalities and $78,744,300 for counties). Municipalities receive the greater of the amounts calculated under the share of costs and rate per mile formulas. The aid rate per mile is set at $1,596 for 1998 and thereafter. Counties receive aid based on the share of costs formula.

GOVERNOR

Provide increased funding for general transportation aids as follows:

a. *County Aid.* Provide $1,181,200 SEG in 1999-00 and $2,362,300 SEG in 2000-01 to provide a total of $79,925,500 in 1999-00 and $81,106,600 in 2000-01. Set the calendar year distribution at $81,106,600 for 2000 and thereafter. This represents a 3.0% increase for calendar year 2000, with no additional increase for calendar year 2001.

b. *Municipal Aid.* Provide $3,522,900 SEG in 1999-00 and $7,045,800 SEG in 2000-01 to provide a total of $251,262,000 in 1999-00 and $254,784,900 in 2000-01. Set the calendar year distribution at $254,784,900 for 2000 and thereafter. This represents a 2.8% increase for calendar year 2000, with no additional increase for calendar year 2001. DOT estimates that this would provide a 3.0% increase for share of costs aid plus provide sufficient funding for those municipalities with three-year average costs high enough to receive the proposed 3.0% increase in mileage aid.

Establish the mileage aid rate at $1,644 per mile for calendar year 2000 and thereafter, which represents a 3.0% increase. Further, require that payments be made based on the share of costs calculation in the event the amounts calculated under the share of costs and mileage aid components of the transportation aids formula are the same.

DISCUSSION POINTS

1. General transportation aid is paid to local governments to assist in the maintenance, improvement and construction of local roads. The current transportation aid formula was created in 1988. Through 1993, all municipalities and counties were paid from the same appropriation. Effective in 1994, separate appropriations were created for counties and municipalities

2. The bill would fully fund the last half of calendar year 1999 payments and provide a 3.0% increase for counties and a 2.8% increase for municipalities for calendar year 2000 and thereafter. The bill would also increase the 1999 mileage aid rate of $1,596 per mile for municipalities to $1,644 per mile for calendar year 2000 and thereafter.

3. During 1999, counties will receive aid at 27.0% of eligible costs and municipalities will receive aid at 21.3% of eligible costs. Under the bill, it is estimated that counties' cost-based aid rate would decrease to 26.6% in 2000 and 25.4% in 2001, while municipalities' cost-based aid rate would decrease to 20.9% in 2000 and 19.8% in 2001 (the estimated municipal rate reflects the proposed increase in the minimum guarantee from 95% to 98%). The following table shows the estimated share of costs for calendar year 2000 at various percentage increases in funding and mileage aid rates.

Percentage	Estimated Cost-Based Aid Rate in 2000	
Increase in Aid	Counties	Municipalities
1%	26.0%	20.3%
2	26.3	20.7
3	26.6	21.0
4	26.9	21.3
5	27.2	21.5
6	27.4	21.8

4. Some dissatisfaction has been expressed with the declining cost-based aid rate. From 1991 through 1999, this rate has dropped from 30.1% to 27.0% for counties and from 24.1% to 21.3% for municipalities.

5. One issue to consider when selecting a funding policy is whether a cost-sharing percentage should control appropriation decisions or whether appropriation decisions should be made based on overall budgetary goals, with the cost-sharing percentage changing from year to year based on these goals.

6. Based on higher-than-anticipated transportation fund revenues, which were identified subsequent to introduction of the budget, the Governor has recommended that general

transportation aid, mass transit operating assistance and the local road improvement program be provided with 3% annual increases. This would represent increases to $83,539,800 for counties and $262,826,400 for municipalities in calendar year 2001. On a fiscal year basis, this would require increases of $1,216,600 in 2000-01 for counties and $193,200 in 1999-00 and $4,214,000 in 2000-01 for municipalities, compared to the bill. The mileage aid rates corresponding to a 3% annual increase would be $1,644 per mile for calendar year 2000 and $1,693 per mile for calendar year 2001 and thereafter.

7. General transportation aid funds are provided on a calendar year basis, with quarterly aid payments made in January, April, July and October. Therefore, only one half of any calendar year 2001 increase would be paid in 2000-01. The remaining portion of the calendar year 2001 increase would be funded in the next biennium. The following table indicates the annual funding commitment in the next biennium under various increases in the combined county and municipal calendar year distributions.

Future Year General Transportation Aid Commitments
Under Various Percentage Increases for Counties and Municipalities

Calendar Year Distribution Increase 2000/2001	Future Funding Commitment
1%/1%	$1,648,700
2%/2%	3,330,100
2.4%/2.5%	4,178,900
3%/3%	5,044,100
4%/4%	6,790,800
5%/5%	8,570,100
6%/6%	10,382,100

8. State and federal funding increases for local road aid programs to assist local governments in the maintenance, improvement and construction of local roads have outpaced increases in inflation in recent years. However, local road program funding has not kept pace with the funding increases provided for the major highway development and state highway rehabilitation programs, due in large part to substantial increases in federal funding that the state has dedicated to these programs. The following table compares the percentage increases in state and federal funding for various transportation programs and the Consumer Price Index from 1997 through 2001.

Percentage Increase in State and Federal Funding for Various Transportation Programs (1997-2001)

Program	AB 133	Governor's Revised Recommendation
Local Road Programs*	18.7%	21.6%
Mass Transit (Tier A)	25.9	28.6
Mass Transit (Tier B)	27.3	29.7
Mass Transit (Tier C)	42.7	44.8
Major Highway Development	35.8	35.8
State Highway Rehabilitation	32.3	32.3
Consumer Price Index	8.9	8.9

*Includes general transportation and connecting highway aid, local road improvement program and local bridge and highway improvement assistance.

8. Based on a forecast of the economy by Standard and Poor's DRI, general inflation is projected to be 2.4% in 2000 and 2.5% in 2001. The amount of funding necessary to fund inflationary increases in the calendar year distributions for both counties and municipalities is estimated to be $3,917,900 in 1999-00 and $12,014,700 in 2000-01. Compared to the bill, this would represent a decrease of $786,200 in 1999-00 and an increase of $2,606,600 in 2000-01. Further, the rate per mile would increase to $1,634 in 2000 and $1,675 in 2001, under a proposal to provide inflationary increases.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to provide $1,181,200 SEG in 1999-00 and $2,362,300 SEG in 2000-01 to fund a 3.0% increase for counties and $3,522,900 SEG in 1999-00 and $7,045,800 SEG in 2000-01 to fund a 2.8% increase for municipalities. Set the calendar year distribution at $81,106,600 for 2000 and thereafter for counties and at $254,784,900 for 2000 and thereafter for municipalities. Establish the mileage aid rate at $1,644 per mile for calendar year 2000 and thereafter. Further, require that payments be made based on the share of costs calculation in the event the amounts calculated under the share of costs and mileage aid components of the transportation aids formula are the same.

Alternative 1	SEG
1999-01 FUNDING (Change to Base)	$14,112,200
[Change to Bill	*$0]*

2. Provide $3,917,900 SEG in 1999-00 and $12,014,700 SEG in 2000-01 to fund increases in the calendar year distributions for both counties and municipalities equal to 2.4% in 1999-00 and 2.5% in 2000-01. In addition, set the calendar year distribution for counties at $80,634,200 for 2000 and $82,650,100 for 2001, and thereafter, and for municipalities at $253,684,800 for 2000 and $260,026,900 for 2001, and thereafter. Establish the mileage aid rate at $1,634 per mile for calendar year 2000 and $1,675 per mile for calendar year 2001, and thereafter. Further, require that payments be made based on the share of costs calculation in the event the amounts calculated under the share of costs and mileage aid components of the transportation aids formula are the same.

Alternative 2	SEG
1999-01 FUNDING (Change to Base)	$15,932,600
[Change to Bill	*$1,820,400]*

3. Provide annual general transportation aid increases (SEG) for 2000 and 2001 at one of the following percentages. Further, require that payments be made based on the share of costs calculation in the event the amounts calculated under the share of costs and mileage aid components of the transportation aids formula are the same. Set the county and municipal distributions, establish the mileage aid rate and increase the general transportation aid appropriation as shown below:

	% Annual Increase in Aid	Calendar Year County Distribution 2000	Calendar Year County Distribution 2001	SEG Change to Base 1999-00	SEG Change to Base 2000-01	SEG Change to Bill 1999-00	SEG Change to Bill 2000-01
a.	1.0%	$79,531,700	$80,327,000	$393,700	$1,185,100	-$787,500	-$1,177,200
b.	2.0	80,319,200	81,925,600	787,500	2,378,100	-393,700	15,800
c.	3.0	81,106,600	83,539,800	1,181,200	3,578,900	0	1,216,600
d.	4.0	81,894,100	85,169,900	1,574,900	4,787,700	393,700	2,425,400
e.	5.0	82,681,500	86,815,600	1,968,600	6,004,300	787,400	3,642,000
f.	6.0	83,469,000	88,477,100	2,362,400	7,228,800	1,181,200	4,866,500

	% Annual Increase in Aid	Calendar Year Municipal Distribution 2000	Calendar Year Municipal Distribution 2001	Calendar Year Rate Per Mile 2000	Calendar Year Rate Per Mile 2001	SEG Change to Base 1999-00	SEG Change to Base 2000-01	SEG Change to Bill 1999-00	SEG Change to Bill 2000-01
g.	1.0%	$250,216,500	$252,718,700	$1,612	$1,628	$1,238,700	$3,728,500	-$2,284,200	-$3,317,300
h.	2.0	252,693,900	257,747,800	1,628	1,661	2,477,400	7,481,800	-1,045,500	436,000
i.	3.0	255,171,300	262,826,400	1,644	1,693	3,716,100	11,259,800	193,200	4,214,000
j.	4.0	257,648,700	267,954,600	1,660	1,726	4,954,800	15,062,600	1,431,900	8,016,800
k.	5.0	260,126,100	273,132,400	1,676	1,760	6,193,500	18,890,200	2,670,600	11,844,400
l.	6.0	262,603,400	278,359,600	1,692	1,794	7,432,200	22,742,400	3,909,300	15,696,600

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June 1, 1999 Joint Committee on Finance Paper #926

General Transportation Aid -- Municipal Minimum Guarantee (DOT -- Local Transportation Aid)

[LFB 1999-01 Budget Summary: Page 579, #2]

CURRENT LAW

The initial formula amounts for all local governments receiving general transportation aid are compared to minimum payment levels to determine whether additional aid is required. Municipalities are guaranteed at least 95% of the prior year's payment while counties are guaranteed at least 98% of the prior year's payment. For municipalities receiving mileage aid, the prior year's payment is adjusted to reflect mileage changes prior to applying the 95% guarantee.

GOVERNOR

Increase the minimum annual payment that any municipality shall receive under the formula from 95% of the previous year's payment to 98% of the previous year's payment.

DISCUSSION POINTS

1. The minimum guarantee component of the general transportation aid formula serves as a cushion to prevent large year-to-year aid payment decreases. Without the current 95% minimum guarantee, a municipality with a significant reduction in its annual costs could experience a substantial aid payment decrease.

2. For the 1999 distribution, it is estimated that minimum guarantee payments will be made to 97 municipalities and 25 counties under the share of costs formula component and one municipality under the mileage aid formula component.

3. In compiling the Department's 1999-01 biennial budget request, DOT requested budget recommendations from the Local Roads and Streets Council on the general transportation aid formula. The Council recommended an increase in the minimum guarantee to provide consistency in the treatment of counties and municipalities under their respective formulas and to ensure a more even distribution among municipalities of the funding available. Further, the Council indicated that the increase would limit the impact on aid payments that may result from DOT's recent decision to reduce the amount of police costs that are considered eligible costs, beginning with 1999 payments.

4. Increasing the minimum guarantee percentage will result in more municipalities receiving aid based on their prior year payment, rather than on their six-year average costs. It is estimated that if the 95% minimum guarantee is retained, 75 municipalities will receive a minimum guarantee payment in 2000. Conversely, increasing the minimum guarantee to 98% would result in 137 municipalities receiving a minimum guarantee payment.

5. The minimum aid distribution is internally funded from the general transportation aid amounts provided each year. That is, municipalities that receive funding based on the minimum guarantee reduce the share of cost percentage for other municipalities. For example, in 2000 the estimated share of costs percentage for municipalities would be 21.0% if the current 95% minimum guarantee is retained. If the proposal in the bill is adopted, the share of costs percentage would decrease to 20.9%. Therefore, under the bill, any municipality that receives aid based on its six-year average costs will receive a payment that covers a lower percentage of its costs. The reduced payments to these municipalities would provide the funding for municipalities on the minimum guarantee.

6. The total payment shift due to the proposed increase in the minimum guarantee is estimated at $579,200 in 2000 and $1,477,000 in 2001. In order to hold other municipalities harmless from the proposed formula change, the municipal calendar year distributions could be increased by these amounts. On a fiscal year basis, this would require increases of $289,600 in 1999-00 and $1,028,100 in 2000-01.

7. The current 95% minimum guarantee already reduces the variability of payments from year-to-year. Increasing that minimum to 98% would increase the level of funding going to some municipalities, essentially reimbursing them for costs they did not incur, at the expense of municipalities that actually experienced increases in costs.

8. Since the formula uses six-year average costs as the basis for each municipality's aid calculation, it eliminates some of the annual variability in costs, and consequently aid payments. The following example illustrates how using six-year average costs lessens the impact of cost changes.

Comparison of Annual and Six-Year Average Cost Changes

Year	Annual Costs	Percent Change	Six-Year Average Costs	Percent Change
1	$49,000			
2	79,000			
3	50,000			
4	43,000			
5	48,000			
6	75,000		$57,333	
7	67,000	-10.7%	60,333	5.2%
8	64,000	-4.5	57,833	-4.1
9	71,000	10.9	61,333	6.1
10	47,000	-33.8	62,000	1.1
11	50,000	6.4	62,333	0.5
12	54,000	8.0	58,833	-5.6

9. As shown above, the year-to-year changes in average costs are less than those for the annual costs. Over the period from Year 6 through Year 12, annual costs vary by $28,000 (Year 6 versus Year 10), while average costs vary by $5,000 (Year 6 versus Year 11).

10. Municipalities that receive funding through the share of costs percentage under the formula are treated equally, in that each municipality's aid is based on its six-year average costs. Conversely, a municipality that receives the minimum guarantee payment is treated differently in that its aid payment is based on its prior year payment. Therefore, while the municipality's costs may indicate that a larger reduction is warranted if all municipalities are to be treated equally, the minimum guarantee treats an affected municipality more favorably than other municipalities, from the standpoint of cost reimbursement.

11. The following table illustrates how municipalities with identical costs over a five-year period would receive differing aid amounts, due to the application of the minimum guarantee. In this example, Municipality A receives minimum guarantee payments in Years 2 through 4, while Municipality B does not receive any minimum guarantee payments. Although both municipalities have average costs totaling $480,000, Municipality A receives aid over this period equal to 21.4% of its costs, while Municipality B receives aid equal to 21.0% of its costs.

Comparison of Aid Payments for Two Example Municipalities
(Aid Rate of 21%; 98% Minimum Guarantee)

	Six-Year Average Costs	Aid Payments	Aid as a Share of Costs
Municipality A			
Year 1	$100,000	$21,000	21.0%
Year 2	94,000	20,580	21.9
Year 3	94,000	20,168	21.5
Year 4	92,000	19,765	21.5
Year 5	100,000	21,000	21.0
Total	$480,000	$102,513	21.4%
Municipality B			
Year 1	$96,000	$20,160	21.0%
Year 2	96,000	20,160	21.0
Year 3	96,000	20,160	21.0
Year 4	96,000	20,160	21.0
Year 5	96,000	20,160	21.0
Total	$480,000	$100,800	21.0%

12. In considering the proposed change in the minimum guarantee, it may be useful to review the current minimum guarantees used under other major state aid formulas.

Formula	Guarantee
Shared Revenue	95%
General School Aid	85%
School Levy Tax Credit	None
General Technical College Aid	None

13. Increasing the minimum guarantee for an aid formula causes fewer communities to receive a payment that is based on the underlying objectives of the formula. Over time, if the number of communities receiving minimum guarantee payments becomes large, support for the formula's original concept can weaken. To a certain extent, this happened with the shared revenue formula after the minimum guarantee for that formula was raised from 90% to 95%. Currently, 38% of the municipalities receive shared revenue minimum guarantee payments, which limits the ability of the shared revenue program to accomplish the formula's main objective, tax base equalization.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to increase the minimum annual payment that any municipality shall receive under the formula from 95% of the previous year's payment to 98% of the previous year's payment.

2. Approve the Governor's recommendation to increase the minimum annual payment that any municipality shall receive under the formula from 95% of the previous year's payment to 98% of the previous year's payment. Increase the municipal calendar year distribution by $579,200 in 2000 and $1,477,000 in 2001 in order to hold other municipalities harmless from the higher minimum guarantee. Provide $289,600 SEG in 1999-01 and $1,028,100 SEG in 2000-01 to fund these higher distributions.

Alternative 2	SEG
1999-01 FUNDING (Change to Base)	$1,317,700
[Change to Bill	*$1,317,700]*

3. Maintain current law.

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June 1, 1999 Joint Committee on Finance Paper #927

General Transportation Aid -- Local Highway Mileage (DOT -- Local Transportation Aid)

[LFB 1999-01 Budget Summary: Page 579, #4]

CURRENT LAW

Counties and municipalities are required to submit a certified mileage plat to DOT and the county clerk no later than December 15 of every odd-numbered year. Newly-incorporated cities and villages are also required to submit a certified plat to DOT and the county clerk. DOT is required to use the mileage indicated on the plat in transportation aid calculations for the odd-numbered year following the year in which the certified plat was filed. DOT is also required to verify the road mileage every ten years.

GOVERNOR

Require local governments, beginning with calendar year 2001, to annually submit to DOT, for the purposes of determining transportation aid, either: (a) a certified highway mileage plat, if changes in mileage have occurred within their jurisdiction since the last plat was submitted; or (b) a certified statement that no changes in jurisdictional mileage have occurred since the last certified plat was filed. Specify that DOT may require that a certified plat be submitted for odd-numbered years following a federal decennial census. Delete the requirement that a local government must also submit a certified mileage plat to the county clerk.

Define jurisdictional mileage as highway mileage, rather than the mileage of streets and roads. Currently, streets and roads have no specific statutory definition for transportation aid purposes, while highways are defined in statute as all public ways and thoroughfares.

Specify that changes in jurisdictional mileage shall be reflected in transportation aid calculations for the year following the submission of a certified plat, rather than in the odd-numbered year following such submission. Delete the requirement that DOT verify road mileage every ten years. Rather, require DOT to assess the accuracy of mileage and other data concerning highways that is reported by local governments. Allow DOT to use field investigations to verify a portion of the data that constitutes a valid random sample or a specialized sample considered appropriate by DOT.

MODIFICATION TO BASE

Approve the Governor's recommendation as modified to specify that the changes in jurisdictional mileage would be reflected in transportation aid calculations for the second calendar year following the year in which the plat was certified.

Explanation: Transportation aid payments are made on a calendar year basis with quarterly payments on the first Monday of January, April, July and October. Further, DOT is required, by October 1 of each year, to notify each county and municipal clerk of the estimated transportation aid payments to that county and municipality for the following calendar year. Counties and municipalities use these estimated amounts in establishing their annual budgets. Under the bill, DOT would not have sufficient time to incorporate the new mileage data into the calculation of the transportation aid payments for the following calendar year. Further, the changes in mileage data would not be reflected in the October estimate of transportation aid payments to be made in the following calendar year, which could impact the accuracy of the estimated payment amounts. This modification would provide DOT sufficient time to incorporate the mileage data in the annual transportation aid calculation and would allow DOT to use the same data in both the estimated aid payment amounts and the calculation of actual transportation aid payments.

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June 1, 1999 Joint Committee on Finance Paper #928

Mass Transit Operating Assistance -- Tier A Funding Level and Formula Changes (DOT -- Local Transportation Aid)

[LFB 1999-01 Budget Summary: Page 580, #6 (part) and Page 581, #7 (part)]

CURRENT LAW

Base level funding for mass transit assistance to Tier A systems is $61,469,200 SEG. Current law requires distributions to Tier A systems (Madison and Milwaukee systems) so that the total of state and federal aid equals a uniform percentage of annual operating expenses for each system. The total 1999 contract amount for Tier A systems is $63,119,300.

GOVERNOR

Provide $2,222,100 SEG in 1999-00 and $3,543,700 SEG in 2000-01 for Tier A systems to fully fund calendar year 1999 payments and to provide a 3% increase in funding, beginning in calendar year 2000. Set the calendar year distribution amount for 2000, and thereafter, at $65,012,900 for Tier A.

Require that the sum of state and federal aid for operating expenses may not exceed 50% of the eligible applicant's annual operating expenses. Further, require that DOT allocate state aid to each applicant in an amount equal to a uniform percentage, established by the Department, of applicants' projected operating expenses for the calendar year, subject to the proposed maximum annual allocation.

Include transit system maintenance expenses as an eligible operating expense in calculating the distribution of mass transit operating assistance. Allow DOT to require any applicant eligible for transit aid to notify the Department of the amount of federal aid under the applicant's discretion that the applicant intends to apply toward annual operating expenses, including maintenance expenses.

DISCUSSION POINTS

Tier Structure

1. Over the past four years, the state has used both a five-tier structure (1996 and 1997) and a three-tier structure (1998 and 1999) for making transit aid payments. The five-tier structure, which had separate tiers for the Milwaukee County and Milwaukee user-side subsidy systems (Tier I) and the Madison system (Tier II), was deleted in 1997 Act 27. Act 27 combined the previous Tiers I and II into the current Tier A, effective with 1998 payments.

2. The current system of tiers generally parallels federal aid categories, with tiers for urbanized areas with populations over 200,000 (Tier A), urbanized areas with populations between 50,000 and 200,000 (Tier B) and nonurbanized areas (Tier C). Waukesha County and City systems are considered part of the Milwaukee urbanized area and the Monona system is considered part of the Madison urbanized area for federal aid purposes, but are included in Tier B for state aid purposes. Urbanized areas over 200,000 receive their federal aid directly from the Federal Transit Administration, while the smaller urban systems and the nonurban systems receive their federal funding through DOT.

3. Under the current formula, the combined state and federal aid percentage for Tier A systems floats to a level that expends the state funds administered by DOT and the level of federal funds that systems choose to allocate for operating expenses. Local funds, consisting primarily of local property tax and farebox revenues, fund the remaining costs. Because DOT must provide a uniform percentage of state and federal aid to systems within the tier, each system's share of the state funding is affected by the cost changes of the other systems, as well as its own costs.

4. The following table illustrates the changes in operating costs for the Milwaukee and Madison systems.

System Operating Costs
($ in Millions)

	Milwaukee Systems		Madison System	
	Costs	% Change	Costs	% Change
1995	$95.9	--	$23.9	--
1996	97.2	1.4%	25.0	4.6%
1997	99.6	2.5	25.4	1.6
1998	107.7	8.1	29.0	14.2
1999*	108.3	0.6	28.9	-0.3

* Projected costs used in 1999 contracts.

5. One of the reasons that the Milwaukee and Madison systems were put in separate tiers under the previous, five-tier structure was to allow the state to more directly target aid to each

of these systems. Transit aid recipients generally favor a funding formula that provides predictability in funding. If the Madison and Milwaukee systems were again placed in separate tiers, the systems would be certain of the state aid amounts they would receive. Further, it may eliminate any incentive created under a combined tier system for one system to increase its costs relative to the other system, in order to receive a greater share of the state aid available to the tier.

6. Placing the Madison and Milwaukee systems in separate tiers would require specifying a distribution amount for each of the systems. Based on 1999 contracts, the Madison system will receive $13,300,100, or 21.1%, of the calendar year distribution for Tier A, while the Milwaukee systems will receive $49,819,200, or 78.9%, of the calendar year distribution amount. Using these percentages, and the level of funding provided under the bill, the calendar year distributions for 2000, and thereafter, would be $13,699,100 for the Madison system and $51,313,800 for the Milwaukee systems.

Formula Changes

7. DOT indicates that the Governor's recommendations to establish an annual maximum of state and federal aid at 50% and to allocate state aid to each system at a uniform percentage of operating expenses are largely in response to transit systems' concerns related to the unpredictability of state funding levels each year. Under the current formula, local governments have argued that linking the state aid amount to an unpredictable level of federal funding adds to the uncertainty of state funding levels. Under the bill, the state aid percentage would still "float" based on the total operating expenses for the tier, but would be linked to federal aid only in applying the proposed 50% maximum.

8. In order to implement the 50% maximum, the bill would allow DOT to require transit systems to notify the Department of the amount of federal aid that each system intends to apply toward annual operating expenses, including maintenance expenses. State aid payments are made for transit operating costs in a given contract year. Conversely, federal expenditure authority can be used to fund operating or capital costs. Any federal funding authority that is unused can be retained by these transit systems and used in a subsequent year.

9. DOT indicates that the 50% maximum is a relatively conservative percentage in that it will likely be fully-funded. This statement is based on the following assumptions: (a) DOT intends to expend all state funds provided these systems first; and (b) once the state share of operating costs is known, the Madison and Milwaukee systems will report only the amount of federal funding necessary to reach the 50% maximum and will retain the rest to fund capital costs or use in a subsequent year.

10. Based on 1999 contracts, and the known amounts of federal funding that these systems intend to use in 1999 to fund operating or capitalized maintenance expenses, the combined state and federal share of costs for Madison and Milwaukee systems is estimated to be 51%. If the structure proposed in the bill had been in place for 1999, these systems would have had to reduce their use of federal aid for operating expenses or capitalized maintenance expenses, or they would have had their state aid reduced so that the total aid funded only 50% of these expenses.

11. Providing a state and federal maximum could raise expectations that the maximum will become a benchmark for combined state and federal funding. That is, systems may see the 50% mark as the percentage of costs that state and federal funding will fund, rather than as the maximum percentage of costs that can be funded. Therefore, if future funding levels do not reach these maximum levels, it could be perceived that the program is under-funded. DOT acknowledges that part of the reasoning behind the proposed 50% maximum is that it establishes a state and federal funding level that, while not guaranteed, can be relied on with a fair amount of certainty.

12. Under the recent federal appropriation language and under TEA 21, federal capital assistance funds can be used to fund a system's annual maintenance costs. While maintenance costs are generally considered operating expenses for state aid purposes, the current definition does not explicitly include these costs in the definition of operating expenses. However, Tier A systems, which receive direct federal funding, may fund maintenance expenses with federal capital improvement funds and not report these expenditures as operating expenses for state aid purposes. The bill would account for these funds for state aid purposes.

13. The bill would include transit system maintenance expenses as an eligible operating expense and any federal funding used to fund these expenses would be used in calculating the distribution of state mass transit operating assistance. Under the bill, using federal capital funds for maintenance expenses would make these funds subject to the 50% maximum, which may reduce the flexibility of these systems to use these funds, since systems that use these funds for maintenance expenses may effectively reduce their state aid.

14. The proposed maximum may reduce the flexibility of the transit systems in using their federal aid, since some uses (operating and capitalized maintenance costs) would be subject to the maximum, while other uses (capital costs and "banking" for future use) would not be subject to the maximum. The greatest degree of flexibility for these systems would be accomplished by totally unlinking state and federal aid.

Funding Levels

15. The Department indicates that the reasoning behind providing a funding increase in only the first calendar year is that: (a) it avoids making a funding commitment in this biennium that will have to be funded in the next biennium; and (b) it coincides with anticipated increases in federal transit aid, which, along with the proposed level of state funding, should be sufficient to fund the statewide transit operating and capital needs in the biennium.

16. Based on higher-than-anticipated transportation fund revenues, which were identified subsequent to introduction of the budget, the Governor has recommended that general transportation aid, mass transit operating assistance and the local road improvement program be provided with 3% annual increases. For Tier A systems, this would represent an increase to $66,963,300 for calendar year 2001. On a fiscal year basis, this would require an increase of $487,600 in 2000-01, compared to the bill.

17. State transit aid funds are provided on a calendar year basis, with quarterly aid payments made in April, July, October and December. Therefore, only one quarter of any calendar year 2001 increase would be paid in 2000-01. The remaining portion of the calendar year 2001 increase would be funded in the next biennium. The following table indicates the annual funding commitment in the next biennium under various increases in the Tier A calendar year 2001 distribution.

Future Year State Transit Aid Commitments
Under Various Percentage Increases for Tier A

Calendar Year Distribution Increase 2000/2001	Future Funding Commitment
1%/1%	$478,100
2%/2%	965,700
2.4%/2.5%	1,211,900
3%/3%	1,462,800
4%/4%	1,969,300
5%/5%	2,485,300
6%/6%	3,010,800

18. The following table provides a comparison of the state and federal aid provided for Tier A systems for calendar years 1997 through 2001. The 2000 and 2001 amounts listed are projected federal aid amounts at the guaranteed federal authorization levels.

Comparison of Tier A State and Federal
Transit Aid Funding (1997-2001)

	1997	1998	1999	2000	2001	1997-01
State Aid	$55,644,200	$60,984,900	$63,119,300	$65,012,900	$65,012,900	
% Change		9.6%	3.5%	3.0%	0.0%	16.8%*
Federal Aid	15,464,300	18,155,000	20,880,500	22,697,100	24,512,800	
% Change		17.4%	15.0%	8.7%	8.0%	58.5%
Total Aid	71,108,500	79,139,900	83,999,800	87,710,000	89,525,700	
% Change		11.3%	6.1%	4.4%	2.1%	25.9%*
CPI % Change		1.6%	2.2%	2.4%	2.5%	8.9%

*These would increase to 20.3% and 28.6% if the Governor's recommendation to provide an additional 3% increase in 2001 is adopted.

19. Last biennium, mass transit operating assistance was increased by 9.6% in 1998 and 3.5% in 1999. Due in part to increases in federal mass transit funding, overall transit funding increases are comparable to the increases in other transportation-related programs. Further, the increases have significantly exceeded the increases in the Consumer Price Index for the same period. The following table compares the percentage increases in state and federal funding for various transportation programs and the Consumer Price Index from 1997 through 2001.

Percentage Increase in State and Federal Funding for Various Transportation Programs (1997-2001)

Program	AB 133	Governor's Revised Recommendation
Mass Transit (Tier A)	25.9%	28.6%
Mass Transit (Tier B)	27.3	29.7
Mass Transit (Tier C)	42.7	44.8
Local Road Programs*	18.7	21.6
Major Highway Development	35.8	35.8
State Highway Rehabilitation	32.3	32.3
Consumer Price Index	8.9	8.9

*Includes general transportation and connecting highway aid, local road improvement program and local bridge and highway improvement assistance.

20. Based on a forecast of the economy from Standard & Poor's DRI, general inflation is projected to be 2.4% in 2000 and 2.5% in 2001. The amount of funding necessary to fund inflationary increases in the calendar year distribution for Tier A systems is estimated to be $2,127,400 in 1999-00 and $3,569,000 in 2000-01. This would require $94,700 less funding in 1999-00 and $25,300 more funding in 2000-01, compared to the bill.

ALTERNATIVES TO BASE

A. Mass Transit Formula Changes

1. Approve one or more of the following associated with the Governor's recommendations to modify the transit formula for Tier A systems:

a. Require that the sum of state and federal aid for operating expenses may not exceed 50% of each system's annual operating expenses;

b. Require DOT to allocate state aid to each applicant in an amount equal to a uniform percentage of operating expenses within the tier, subject to the 50% maximum for the tier;

c. Allow DOT to require any applicant eligible for transit aid to notify the Department of the amount of federal aid under the applicant's discretion that the applicant intends to apply toward annual operating expenses; and

d. Include transit system maintenance expenses as an eligible operating expense in calculating the distribution of mass transit operating assistance.

2. Delete the current formula for distributing aid to Tier A systems and require DOT to distribute the amount specified in statute to the local government providing the local match for each system. Specify that if this local government sponsors more than one system, that the aid shall be distributed between the systems at the discretion of the local government.

3. Maintain current law (DOT would continue to provide the sum of state and federal aid that funds a uniform percentage of costs for each system within a tier).

B. Funding Levels with Madison and Milwaukee in One Tier

Maintain the current tier structure, with the Madison system and the Milwaukee systems in one tier, and provide one of the following funding levels:

1. Approve the Governor's recommendation to provide $2,222,100 SEG in 1999-00 and $3,543,700 SEG in 2000-01 for Tier A systems to fully fund calendar year 1999 payments and to provide a 3% increase in funding, beginning in calendar year 2000. Set the calendar year distribution amount for 2000, and thereafter, at $65,012,900 for Tier A systems.

Alternative B1	**SEG**
1999-01 FUNDING (Change to Base)	$5,765,800
[Change to Bill	*0]*

2. Provide $2,127,400 SEG in 1999-00 and $3,569,000 SEG in 2000-01 to fully fund calendar year 1999 payments and to provide an inflationary increase in the calendar year distributions equal to 2.4% in 2000 and 2.5% in 2001. Set the calendar year distribution amounts at $64,634,200 for 2000 and $66,250,100 for 2001, and thereafter, for Tier A systems.

Alternative B2	**SEG**
1999-01 FUNDING (Change to Base)	$5,696,400
[Change to Bill	*- $69,400]*

3. Provide one of the following annual percentage increases in calendar year funding:

	Calendar Year Distribution Amounts		Change to Base		Change to Bill	
	2000	2001	1999-00	2000-01	1999-00	2000-01
a. One Percent	$63,750,500	$64,388,000	$1,906,500	$2,440,700	-$315,600	-$1,103,000
b. Two Percent	64,381,700	65,699,300	2,064,300	3,234,400	-157,800	-309,300
c. Three Percent	65,012,900	66,963,300	2,222,100	4,031,300	0	487,600
d. Four Percent	65,644,100	68,269,900	2,379,900	4,831,400	157,800	1,287,700
e. Five Percent	66,275,300	69,589,100	2,537,700	5,634,600	315,600	2,090,900
f. Six Percent	66,906,500	70,920,900	2,695,500	6,440,900	473,400	2,897,200

C. Funding Levels with Madison and Milwaukee in Separate Tiers

Delete the current tier system and replace it with a tier structure that places the Madison system in one tier and the Milwaukee County and Milwaukee user-side subsidy systems in a separate tier, effective with calendar year 2000 payments. Provide one of the following funding levels:

1. Provide $2,222,100 SEG in 1999-00 and $3,543,700 SEG in 2000-01 as recommended by the Governor to fully fund calendar year 1999 payments and to provide a 3% increase in funding, beginning in calendar year 2000, as follows: (a) $468,200 SEG in 1999-00 and $746,700 SEG in 2000-01 to the tier containing the Madison transit system; and (b) $1,753,900 SEG in 1999-00 and $2,797,000 SEG in 2000-01 to the tier containing the Milwaukee County and Milwaukee user-side subsidy transit systems. Set the calendar year distribution amounts for 2000, and thereafter, at $13,699,100 for the tier containing the Madison transit system and $51,313,800 for the tier containing the Milwaukee County and Milwaukee user-side subsidy transit systems.

Alternative C1	**SEG**
1999-01 FUNDING (Change to Base)	$5,765,800
[Change to Bill	*0]*

2. Provide $2,127,400 SEG in 1999-00 and $3,569,000 SEG in 2000-01 to fully fund 1999 payments and to provide inflationary increases in the calendar year distributions of 2.4% in 2000 and 2.5% in 2001, as follows: (a) $448,300 SEG in 1999-00 and $752,000 SEG in 2000-01 to the tier containing the Madison transit system; and (b) $1,679,100 SEG in 1999-00 and $2,817,000 SEG in 2000-01 to the tier containing the Milwaukee County and Milwaukee user-side subsidy transit systems. Set the calendar year distribution amounts at $13,619,300 for 2000 and $13,959,800 for 2001, and thereafter, for the tier containing the Madison transit system and at $51,014,900 for 2000 and $52,290,300 for 2001, and thereafter, for the tier containing the Milwaukee County and Milwaukee user-side subsidy transit systems.

Alternative C2	SEG
1999-01 FUNDING (Change to Base)	$5,696,400
[Change to Bill	*- $69,400]*

3. Provide one of the following annual percentage increases in calendar year funding:

	Calendar Year Distribution Amounts		Change to Base		Change to Bill	
	2000	2001	1999-00	2000-01	1999-00	2000-01
a. One Percent						
Madison	$13,433,100	$13,567,400	$401,700	$514,300	-$66,500	-$232,400
Milwaukee	50,317,400	50,820,600	1,504,800	1,926,400	-249,100	-870,600
	$63,750,500	$64,388,000	$1,906,500	$2,440,700	-$315,600	-$1,103,000
b. Two Percent						
Madison	$13,566,100	$13,837,400	$435,000	$681,500	-$33,300	-$65,200
Milwaukee	50,815,600	51,831,900	1,629,300	2,552,900	-124,500	-244,100
	$64,381,700	$65,699,300	$2,064,300	$3,234,400	-$157,800	-$309,300
c. Three Percent						
Madison	$13,699,100	$14,110,100	$468,200	$849,500	$0	$102,700
Milwaukee	51,313,800	52,853,200	1,753,900	3,181,800	0	384,900
	$65,012,900	$66,963,300	$2,222,100	$4,031,300	$0	$487,600
d. Four Percent						
Madison	$13,832,100	$14,385,400	$501,500	$1,018,000	$33,300	$271,300
Milwaukee	51,812,000	53,884,500	1,878,400	3,813,400	124,500	1,016,400
	$65,644,100	$68,269,900	$2,379,900	$4,831,400	$157,800	$1,287,700
e. Five Percent						
Madison	$13,965,100	$14,663,400	$534,700	$1,187,300	$66,500	$440,600
Milwaukee	52,310,200	54,925,700	2,003,000	4,447,300	249,100	1,650,300
	$66,275,300	$69,589,100	$2,537,700	$5,634,600	$315,600	$2,090,900
f. Six Percent						
Madison	$14,098,100	$14,944,000	$568,000	$1,357,200	$99,800	$610,500
Milwaukee	52,808,400	55,976,900	2,127,500	5,083,700	373,600	2,286,700
	$66,906,500	$70,920,900	$2,695,500	$6,440,900	$473,400	$2,897,200

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June 1, 1999 | Joint Committee on Finance | Paper #929

Mass Transit Operating Assistance -- Tier B and C Funding Level and Formula Changes (DOT -- Local Transportation Aid)

[LFB 1999-01 Budget Summary: Page 580, #6 (part) and Page 581, #7 (part)]

CURRENT LAW

Under current law, a three-tiered structure exists for making state transit aid distributions to transit systems in the state, including Tier B (Waukesha City and County, Monona, all other urban bus and Chippewa Falls and Onalaska shared-ride taxi systems) and Tier C (all other remaining systems). Current law requires DOT to make transit aid distributions so that the sum of state and federal aid equals a uniform percentage of annual operating expenses for each system within a tier.

Base level funding for mass transit assistance for Tier B and Tier C systems is $22,854,400 SEG. The total 1999 contract amounts for each tier are as follows: (a) $18,422,500 for Tier B; and (b) $4,975,900 for Tier C.

GOVERNOR

Create a two-tiered structure for state aid distributions, including Tier A, which includes those systems having annual operating expenses greater than $20 million (Madison and Milwaukee systems) and Tier B, which includes those systems having annual operating expenses less than $20 million (all other systems). The modified Tier B would consist of the current Tier B systems and the Tier C systems.

Require that the sum of state and federal aid for operating expenses may not exceed 65% of the eligible applicant's annual operating expenses (only federal aid allocated under the mass transit operating assistance program would be counted for this purpose). Establish transitional provisions for Tier B systems operating in urbanized areas, effective with calendar year 2000 and 2001 payments, to limit combined state and federal operating aid to 60% of that portion of the eligible applicant's operating expenses associated with service provided within an urbanized area.

Operating expenses associated with service provided within a nonurbanized area would be subject to a 65% limit.

Allow DOT to require any applicant eligible for transit aid to notify the Department of the amount of federal aid under the applicant's discretion that the applicant intends to apply toward annual operating expenses, including maintenance expenses. Require DOT to determine the amount of federal aid available for each Tier B system and allow the Department to require systems within Tier B to accept the federal aid as a condition of receiving state aid.

Provide $719,600 SEG in 1999-00 and $1,246,000 SEG in 2000-01 to fully fund calendar year 1999 payments and to provide a 3% increase in funding, beginning in calendar year 2000. The funding would be distributed as follows: (a) $1,837,400 in 1999-00 and $6,095,800 in 2000-01 for Tier B, which reflects the combining of the systems in Tiers B and C in calendar year 2000; and (b) -$1,117,800 in 1999-00 and -$4,849,800 in 2000-01 for Tier C, which reflects the deletion of Tier C in calendar year 2000 (the remaining $3,732,000 in 1999-00 would fully fund 1999 Tier C payments). Set the calendar year distribution amount for 2000, and thereafter, at $24,100,400 for Tier B.

DISCUSSION POINTS

Tier Structure

1. The concept of grouping systems into tiers was part of the Department's "Translinks" plan. Having tiers of systems allows the state to target different levels of state aid to each group of systems based on differing levels of federal funds available to them, and to recognize the similar needs of systems that are similar in size.

2. The current tier structure for mass transit aid generally parallels federal aid categories, with urbanized areas with populations between 50,000 and 200,000 included in the current Tier B and nonurbanized areas included in Tier C. Federal funds can generally be used to fund both capital and operating expenses.

3. The current structure recognizes the distinct size and type of systems within each tier. Tier C bus systems serve smaller communities, have smaller operating budgets and are generally less able than Tier B systems to cover costs from farebox revenue. Further, most of the Tier C systems are shared-ride taxi systems, which in 1999 will receive approximately two-thirds of the state funds provided for Tier C systems.

4. DOT indicates that a combined tier, in conjunction with the proposed maximums, would provide the Department flexibility to interchangeably allocate state funding among the two types of systems, based on the availability and allowed uses of federal funding. For example, creating the maximums would allow DOT to move state funds from Tier B systems that are at the proposed 60% maximum to former Tier C systems that have yet to approach the proposed 65% maximum, rather than being required to provide those funds to the Tier B systems.

5. In developing its budget request, the Department anticipated that urbanized (Tier B) systems would receive a larger increase in federal funding than nonurbanized (Tier C) systems. Under the bill, this funding scenario could result in state aid being reallocated from Tier B systems to Tier C systems.

6. Federal funding levels for Tier C systems in the biennium are likely to be higher than the Department originally anticipated. Further, while the federal government requires that rural, intercity bus projects be the "first draw" on 15% of federal, nonurbanized formula funding until all the intercity needs are met, these funds can be used for nonurbanized transit operating expenses. Historically, the rural intercity bus needs have not required 15% of the nonurbanized federal funding. Despite this, no intercity bus funding was included in DOT's original estimate of available federal transit funding for Tier C systems, because the Department proposed that this funding be used to fund a new intercity bus program. However, the Governor did not include the intercity bus proposal in the bill. Therefore, it is likely that some of the intercity bus funds would continue to be available for Tier C transit systems.

7. The following table indicates the state and federal share of operating expenses, assuming the following: (a) a 5% growth in total operating costs within each tier in each year of the biennium; (b) state funding provided under the bill; and (c) the entire 15% of the nonurbanized federal funding amounts would be used for intercity bus needs, rather than for transit operating aid.

Comparison of State and Federal Percentages of Operating Expenses

	Operating Costs	State Aid	State Share	Federal Aid*	Federal Share	Combined Share
Tier B						
2000	$46,182,532	$18,975,200	41.1%	$10,039,200	21.7%	62.8%
2001	48,491,659	18,975,200	39.1	10,843,000	22.4	61.5
Tier C						
2000	$14,256,485	$5,125,200	35.9%	$4,329,200	30.4%	66.3%
2001	14,969,310	5,125,200	34.2	4,675,600	31.2	65.5

* Federal funds that could be used to fund operating aid and capital improvements. Federal operating aid could be limited to 50% of each system's operating deficit.

8. As the table indicates, if the current tier structure is maintained, both types of systems would have the necessary funding to meet the proposed 60% and 65% maximum percentages in the biennium. This may reduce the need to provide the Department with flexibility in allocating funds among the two types of systems.

9. In the event that federal funding beyond the 1999-2001 biennium is reduced for either tier of systems, the flexibility to match state and federal funding with the needs of each type of system could be useful. Further, DOT argues that it would also provide some degree of stability in the funding available to both types of systems.

Formula Changes

10. Under the current formula, the combined state and federal aid percentage floats to a level that expends the state funds and provides a uniform state and federal funding percentage for systems within the tier. Local funds, consisting primarily of local property tax and farebox revenues, fund the remaining costs. Because DOT must provide a uniform percentage of state and federal aid to systems within a tier, each system's share of the state funding is affected by the cost changes of all other systems, as well as its own costs.

11. DOT indicates that the recommendation to establish an annual maximum percentage of costs to be funded from state and federal funding is in response to transit systems' concerns related to the uncertainty that results from linking state funding under the current formula to an unpredictable level of federal funding. Under the bill, the state aid percentage would still "float" based on the total operating expenses for the tier, but would be linked to federal aid only in applying the proposed maximums.

12. Providing a combined state and federal maximum could raise expectations that the maximum will become a benchmark for combined funding. That is, systems may see the 60% and 65% levels as the percentage of costs that combined state and federal funding will fund, rather than as the maximum percentage of costs that can be funded. Therefore, if future funding levels do not reach these maximum levels, it could be perceived that the program is under-funded. DOT acknowledges that part of the reasoning behind the proposed maximum is that it establishes a state and federal funding level that, while not guaranteed, can be relied on with a fair amount of certainty.

13. The 60% and 65% maximum percentages will likely be fully funded in biennium. While the state and federal percentage of operating costs for Tier B systems reached the proposed 60% maximum in recent years, the state and federal percentage for Tier C systems has exceeded the proposed 65% maximum for the past four years. The following table indicates the state funding and the combined state and federal funding as a percent of each tier's operating expenses for the past four years.

State and Federal Funding as a Percentage of Expenses by Tier

	Tier B		Tier C	
Year	State Aid Percentage	Combined State/Federal Percentage	State Aid Percentage	Combined State/Federal Percentage
1996	42.5%	53.6%	39.2%	67.9%
1997	41.4	52.1	37.2	66.2
1998	43.1	60.0	37.1	66.2
1999	41.9	60.0	36.6	66.4

14. As this table indicates, limiting nonurbanized systems to a state and federal funding percentage of 65% would result in a smaller percentage of operating costs being funded from these

funds than in the previous four years. Any available funds in excess of the proposed maximums for nonurbanized systems could be used for: (a) capital expenditures for systems within that tier, if separate tiers are retained; or (b) capital expenses for either type of system or operating expenses for urbanized systems, if the tiers are combined.

15. Under the bill, if the sum of state and federal funding does not fund the maximum percentages, DOT would be required to provide a uniform percentage of state aid among the systems within the combined tier. Under these circumstances, this requirement would eliminate any flexibility on the part of DOT to reallocate state funds within the combined tier based on the availability of federal funds.

Funding Levels

16. The Department indicates that the reasoning behind providing a funding increase in only the first calendar year is that: (a) it avoids making a funding commitment in this biennium that will have to be funded in the next biennium; and (b) it coincides with anticipated increases in federal transit aid, which, along with the proposed level of state funding, should be sufficient to fund the statewide transit operating and capital needs in the biennium.

17. Based on higher-than-anticipated transportation fund revenues, which were identified subsequent to introduction of the budget, the Governor has recommended that general transportation aid, mass transit operating assistance and the local road improvement program be provided with 3% annual increases. For Tier B and C systems, this would represent an increase to $24,823,400 for calendar year 2001. On a fiscal year basis, this would require an increase of $180,800 in 2000-01, compared to the bill.

18. State transit aid funds are provided on a calendar year basis, with quarterly aid payments made in April, July, October and December. Therefore, only one quarter of any calendar year 2001 increase would be paid in 2000-01. The remaining portion of the calendar year 2001 increase would be funded in the next biennium. The following table indicates the annual funding commitment in the next biennium under various increases in the Tier B and C calendar year distributions.

Future Year State Transit Aid Commitments
Under Various Percentage Increases for Tiers B and C

Calendar Year Distribution Increase 2000/2001	Future Funding Commitment
1%/1%	$177,200
2%/2%	358,000
2.4%/2.5%	449,300
3%/3%	542,200
4%/4%	730,000
5%/5%	921,300
6%/6%	1,116,100

19. The following table provides a comparison of the state and federal formula aid provided for Tier B and Tier C systems for calendar years 1997 through 2001. The 2000 and 2001 amounts listed are projected federal aid amounts at the guaranteed federal authorization levels.

Comparison of Tier B and Tier C State and Federal Transit Aid Funding (1997-2001)

	1997	1998	1999	2000	2001	1997-01
Tier B						
State Aid	$16,240,900	$17,799,600	$18,422,500	$18,975,200	$18,975,200	
% Change		9.6%	3.5%	3.0%	0.0%	16.8%*
Federal Aid	7,184,500	8,356,700	9,236,200	10,039,800	10,843,000	
% Change		16.3%	10.5%	8.7%	8.0%	50.9%
Total Aid	23,425,400	26,156,300	27,658,700	29,015,000	29,818,200	
% Change		11.7%	5.7%	4.9%	2.8%	27.3%*
Tier C						
State Aid	$4,386,600	$4,807,600	$4,975,900	$5,125,200	$5,125,200	
% Change		9.6%	3.5%	3.0%	0.0%	16.8%*
Federal Aid	3,060,100	3,551,800	4,685,600	5,093,200	5,500,700	
% Change		16.1%	31.9%	8.7%	8.0%	79.8%
Total Aid	7,446,700	8,359,400	9,661,500	10,218,400	10,625,900	
% Change		12.3%	15.6%	5.8%	4.0%	42.7%*
CPI % Change		1.6%	2.2%	2.3%	2.4%	8.9%

*These would increase to 20.3% and 29.7% for Tier B and to 20.3% and 44.8% for Tier C if the Governor's recommendation to provide an additional 3% increase in 2001 is adopted.

20. Last biennium, mass transit operating assistance was increased by 9.6% in 1998 and 3.5% in 1999. Due in part to increases in federal mass transit funding, overall transit funding increases are comparable to the increases in other transportation-related programs. Further, the increases have significantly exceeded the change in the Consumer Price Index for the same period.

The following table compares the percentage increases in state and federal funding for various transportation programs and the Consumer Price Index from 1997 through 2001.

Percentage Increase in State and Federal Funding for Various Transportation Programs (1997 through 2001)

Program	AB 133	Governor's Revised Recommendation
Mass Transit (Tier A)	25.9%	28.6%
Mass Transit (Tier B)	27.3	29.7
Mass Transit (Tier C)	42.7	44.8
Local Road Programs*	18.7	21.6
Major Highway Development	35.8	35.8
State Highway Rehabilitation	32.3	32.3
Consumer Price Index	8.9	8.9

*Includes general transportation and connecting highway aid, local road improvement program and local bridge and highway improvement assistance.

21. Based on a forecast of the economy from Standard and Poor's DRI, general inflation is projected to be 2.4% in 2000 and 2.5% in 2001. The amount of funding necessary to fund inflationary increases in the calendar year distribution for Tier B and Tier C systems is estimated to be $684,500 in 1999-00 and $1,255,400 in 2000-01. This would require $35,100 less funding in 1999-00 and $9,400 more funding in 2000-01, compared to the bill.

ALTERNATIVES TO BASE

A. Formula Changes

1. Approve one or more of the following associated with the Governor's recommendation to modify the transit formula for Tier B and Tier C systems:

a. Require that the sum of state and federal aid for operating expenses may not exceed 65% of the eligible applicant's annual operating expenses (only federal aid allocated under the mass transit operating assistance program would be counted for this purpose);

b. Establish transitional provisions for Tier B systems operating in urbanized areas, effective with calendar year 2000 and 2001 payments, to limit combined state and federal operating aid to 60% of that portion of the eligible applicant's operating expenses associated with service provided within an urbanized area (operating expenses associated with service provided within a nonurbanized area would be subject to a 65% limit);

c. Require DOT to allocate state aid to each applicant in an amount equal to a uniform percentage of operating expenses within the tier, subject to the maximum for the tier;

d. Allow DOT to require any applicant eligible for transit aid to notify the Department of the amount of federal aid under the applicant's discretion that the applicant intends to apply toward annual operating expenses, including maintenance expenses; and

e. Require DOT to determine the amount of federal aid available for each system and allow the Department to require applicants to accept the federal aid as a condition of receiving state aid.

2. Maintain current law (DOT would continue to provide the sum of state and federal aid that funds a uniform percentage of costs for each system within a tier).

B. Funding Levels with Tiers B and C Combined

Approve the Governor's recommendation to combine the current Tier B and Tier C systems into one tier and provide one of the following funding levels:

1. Provide $719,600 SEG in 1999-00 and $1,246,000 SEG in 2000-01 to fully fund calendar year 1999 payments and to provide a 3% increase in funding, beginning in calendar year 2000, as recommended by the Governor. Set the calendar year distribution amount for 2000, and thereafter, at $24,100,400 for the combined Tier B systems.

Alternative B1	SEG
1999-01 FUNDING (Change to Base)	$1,965,600
[Change to Bill	*$0]*

2. Provide $684,500 SEG in 1999-00 and $1,255,400 SEG in 2000-01 to fully fund calendar year 1999 payments and to provide inflationary increases in the calendar year distributions equal to 2.4% in 2000 and 2.5% in 2001. Set the calendar year distribution amounts at $23,960,000 for 2000 and $24,559,000 for 2001, and thereafter, for the combined Tier B systems.

Alternative B2	SEG
1999-01 FUNDING (Change to Base)	$1,939,900
[Change to Bill	*- $25,700]*

3. Provide one of the following annual percentage increases in calendar year funding:

	Calendar Year Distribution Amounts		Change to Base		Change to Bill	
	2000	2001	1999-00	2000-01	1999-00	2000-01
1. One Percent	$23,632,400	$23,868,700	$602,600	$837,100	-$117,000	-$408,900
2. Two Percent	23,866,400	24,343,700	661,100	1,131,300	-58,500	-114,700
3. Three Percent	24,100,400	24,823,400	719,600	1,426,800	0	180,800
4. Four Percent	24,334,300	25,307,700	778,100	1,723,300	58,500	477,300
5. Five Percent	24,568,300	25,796,700	836,600	2,021,000	117,000	775,000
6. Six Percent	24,802,300	26,290,400	895,100	2,319,900	175,500	1,073,900

C. Funding Levels with a Separate Tier B and Tier C

Maintain the current tier structure with separate tiers for Tier B and Tier C systems and provide one of the following funding levels:

1. Provide $719,600 SEG in 1999-00 and $1,246,000 SEG in 2000-01 as recommended by the Governor to fully fund calendar year 1999 payments and to provide a 3% increase in funding, beginning in calendar year 2000, as follows: (a) $556,200 SEG in 1999-00 and $970,600 SEG in 2000-01 to the current Tier B systems; and (b) $163,400 SEG in 1999-00 and $275,400 SEG in 2000-01 to the current Tier C systems. Set the calendar year distribution amounts for 2000, and thereafter, at $18,975,200 for the current Tier B systems and $5,125,200 for the current Tier C systems.

Alternative C1	SEG
1999-01 FUNDING (Change to Base)	$1,965,600
[Change to Bill	*$0]*

2. Provide $684,500 SEG in 1999-00 and $1,255,400 SEG in 2000-01 to fully fund 1999 payments and to provide inflationary increases in the calendar year distributions of 2.4% in 2000 and 2.5% in 2001, as follows: (a) $528,500 SEG in 1999-00 and $977,900 SEG in 2000-01 to the current Tier B systems; and (b) $156,000 SEG in 1999-00 and $277,500 SEG in 2000-01 to the current Tier C systems. Set the calendar year distribution amounts at $18,864,600 for 2000 and $19,336,200 for 2001, and thereafter, for Tier B systems and at $5,095,300 for 2000 and $5,222,700 for 2001, and thereafter, for Tier C systems.

Alternative C2	SEG
1999-01 FUNDING (Change to Base)	$1,939,900
[Change to Bill	*- $25,700]*

3. Provide one of the following annual percentage increases in calendar year funding:

	Calendar Year Distribution Amounts		Change to Base		Change to Bill	
	2000	2001	1999-00	2000-01	1999-00	2000-01
1. One Percent						
Tier B	$18,606,700	$18,792,800	$464,000	$648,600	-$92,200	-$322,000
Tier C	5,025,700	5,076,000	138,600	188,500	-24,800	-86,900
	$23,632,400	$23,868,700	$602,600	$837,100	-$117,000	-$408,900
2. Two Percent						
Tier B	$18,791,000	$19,166,800	$510,100	$880,300	-$46,100	-$90,300
Tier C	5,075,400	5,176,900	151,000	251,000	- 12,400	- 24,400
	$23,866,400	$24,343,700	$661,100	$1,131,300	-$58,500	-$114,700
3. Three Percent						
Tier B	$18,975,200	$19,544,500	$556,200	$1,112,900	$0	$142,300
Tier C	5,125,200	5,279,000	163,400	313,900	0	38,500
	$24,100,400	$24,823,400	$719,600	$1,426,800	$0	$180,800
4. Four Percent						
Tier B	$19,159,400	$19,925,800	$602,200	$1,346,400	$46,000	$375,800
Tier C	5,174,900	5,381,900	175,900	376,900	12,500	101,500
	$24,334,300	$25,307,700	$778,100	$1,723,300	$58,500	$477,300
5. Five Percent						
Tier B	$19,343,600	$20,310,800	$648,300	$1,580,800	$92,100	$610,200
Tier C	5,224,700	5,485,900	188,300	440,200	24,900	164,800
	$24,568,300	$25,796,700	$836,600	$2,021,000	$117,000	$775,000
6. Six Percent						
Tier B	$19,527,900	$20,699,600	$694,300	$1,816,100	$138,100	$845,500
Tier C	5,274,500	5,591,000	200,800	503,800	37,400	228,400
	$24,802,300	$26,290,400	$895,100	$2,319,900	$175,500	$1,073,900

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June 1, 1999 Joint Committee on Finance Paper #930

Mass Transit Operating Assistance -- Local Match Requirements (DOT -- Local Transportation Aid)

[LFB 1999-01 Budget Summary: Page 582, #8]

CURRENT LAW

Current law requires a 20% local match of state aid from municipalities served by bus systems. State aid to these systems is limited to five times the local match funding. Shared-ride taxi systems are not required to provide a local match to receive state aid.

GOVERNOR

Require bus systems to provide a local match, exclusive of user fees, equal to at least 10% of each eligible applicant's annual operating expenses, effective with calendar year 2000 contracts (this would replace the current local match equal to 20% of state aid). Delete the current state aid maximum of five times the local match amount.

Specify that no shared-ride taxi system (except for the system's initial year of service) may receive a state aid amount in excess of the previous calendar year amount unless the system provides a local match equal to at least 5% of the system's operating expenses, effective for calendar year 2000, or 10% of operating expenses, effective beginning with calendar year 2001

Provide that if an eligible applicant is served exclusively by a shared-ride taxi system and voluntarily complies with the local match requirements, the applicant may be exempt from any required management performance audit.

DISCUSSION POINTS

Bus Systems

1. The current 20% local match for bus systems was approved in 1989 in order to give local governments an incentive to operate systems efficiently and to ensure a local commitment to mass transit. Administrative rules specify that state aid contracts may be terminated if the local match is not provided.

2. The existing local match requirement ties the local share to the amount of state aid received. For example, if a system receives state aid equal to 45% of its operating costs, that system must provide a local match equal to at least 9% of these costs, while a system receiving state aid equal to 50% of its operating costs must provide a local match equal to at least 10% of these costs. As this example shows, the local match as a share of operating costs rises and falls with the level of state aid provided.

3. The proposed local match would differ in that it would be based on 10% of operating costs, rather than 20% of the level of state aid received by each system.

4. The state share of operating costs can vary for individual systems based on the level of federal aid the system receives. Under the current formula, the combined state and federal aid percentage floats to a level that expends the state funds and provides a uniform state and federal funding percentage for all systems within the tier. If federal aid provides a larger percentage of a system's annual operating costs, state aid for that system will cover a smaller percentage of operating costs, which reduces the required local match.

5. The following table shows how the required local match for two Tier B systems differs based on the amount of federal aid received. Both systems will receive a combined state and federal aid percentage equal to 60% of costs in 1999. However, based on 1999 contracts, the Racine Commuter system will likely receive no federal aid, while the City of Superior bus system will likely receive 20.1% of its costs from federal aid.

Impact of Federal Aid on Required Local Match

	Racine Commuter	Percent of Costs	Superior	Percent of Costs
Operating Costs	$783,100		$866,200	
State Aid	$469,900	60.0%	$346,000	39.9%
Federal Aid	0	0.0	173,700	20.1
Total State and Federal Aid	$469,900	60.0%	$519,700	60.0%
Required Local Match (Current Law)	$93,980	12.0%	$69,200	8.0%
Required Local Match (Bill)	78,310	10.0	86,620	10.0

6. As indicated in the table, despite having $83,100 less in estimated operating costs, the Racine Commuter system has a larger required local match under current law, due to the level of federal aid provided for the City of Superior's system. The bill would require the local match to rise as operating costs increase, regardless of whether the costs are funded through state or federal aid. As a percentage of costs, the local match for all systems would be uniform under the bill.

7. While every bus system is providing an amount that that exceeds the proposed local match requirement, the required match would increase for all but five bus systems, which would decrease their ability to reduce local funding in the future. Attachment 1 indicates the change in the required match for bus systems under the bill, based on 1999 contracts.

8. The 1999 transit contracts indicate that all but one system (Racine Commuter) is providing significantly more than the current minimum local match (20% of state aid). Further, based on the 1999 transit contracts, each bus system in the state would have met the proposed local match. Local match amounts as a percentage of 1999 operating expenses ranged from 16.7% to 31.9% for Tier A systems, from 12.1% to 29.9% for Tier B bus systems and from 11.0% to 26.2% for Tier C bus systems. The following table indicates the average 1999 local match as a percent of state aid and as a percent of operating expenses for each tier.

Comparison of Local Match to State Aid and Operating Expenses

Tier	Local Match as Percent of State Aid	Local Match as Percent of Operating Expenses
Tier A	45.7%	21.0%
Tier B	48.0	20.1
Tier C	58.0	21.3

9. Because each bus system is currently meeting the proposed 10% local match requirement, the proposal will have little practical effect on bus systems. To make a change in the local match requirement that would have more of an impact, particularly in limiting the potential for local funding reductions, a local match equal to 15% of operating costs could be required. Attachment 2 indicates the amount that each system would need to provide, compared to the system's 1999 local match amount, if the local match was set at 15% of operating expenses.

Shared-Ride Taxi Systems

10. The Governor recommended a phase-in of a local match for shared-ride taxi systems in the 1995-97 biennial budget. The provision was deleted by the Legislature and, thus, not included in the final biennial budget act. At that time, and under the current proposal, DOT indicated its support of the local match to increase interest, involvement and accountability on the part of local governments operating or contracting for shared-ride taxi services.

11. The current local match proposal is different than past local match proposals for shared-ride taxi systems. During the 1995-97 budget deliberations, a proposal to phase-in a required

local match for shared-ride taxi systems was rejected by the Legislature. The current proposal is different in that it has some voluntary components. That is, the proposed 5% local match in 2000 and 10% local match in 2001 are only required if systems wish to receive an increase over the prior year's state aid amount.

12. The bill would also exempt any system that complies with the proposed local match requirement from the program's performance audit requirements. A number of the shared-ride taxi services are contracted with private vendors who provide the service. The Department indicates that if a local government is paying for some portion of the service, the local government may be more concerned with the efficiency and effectiveness of the service, which would reduce the need for performance audits. However, bus systems, which have been and will continue to be required to provide a local match, would continue to be subject to the performance audit requirements.

13. Attachment 3 shows the projected 1999 operating expenses for each shared-ride taxi system, the current local funding provided and the additional local funding amounts that would be needed with a 5% and 10% local match in order to receive state aid increases.

14. The following tables indicate the current distribution of the percentage of shared-ride taxi operating expenses funded with local funds and the distribution of funding increases needed to meet the proposed 10% requirement.

Distribution of Local Funds Provided by Shared-Ride Taxi Systems

Percent of Expenses	Number of Systems
0%	14
0% to 5%	6
5% to 10%	7
10% to 15%	7
15% to 20%	6
Over 20%	1
TOTAL	41

Distribution of Funding Increases Needed at 10% Local Match

Increase Needed	Number of Systems
$0	14
$0 to $5,000	4
$5,000 to $10,000	4
$10,000 to $15,000	5
$15,000 to $20,000	4
Over $20,000	10
TOTAL	41

Local Match Policy Issues

15. Under the mass transit aid formula, after all the state aid is expended and the federal aid is allocated, any remaining costs are either funded from farebox revenue or local funds, which are primarily property taxes. Mandating that local communities use local funds to assist transit reduces their flexibility to choose between fare increases or dedicating additional local revenues to the portion of transit operating costs not funded from state or federal aid.

16. Conversely, allowing local governments the flexibility to determine where the local funds will come from could result in a local government choosing to fund the entire local share from farebox revenues. Arguably, transit service benefits the general public by getting people to and from places of employment or consumers to places of business. Therefore, it could be argued that local taxpayers should be required to cover some of the costs of the service. Further, a local match may subject cost decisions relative to transit service levels to greater local scrutiny than if the total cost is paid by outside governments and transit users. A required local match ensures that non-farebox, local revenues pay for some of the costs of transit.

17. The 1995-97 biennial budget directed DOT to establish cost-efficiency standards for transit systems by administrative rule. This rule authority was established to address local accountability concerns similar to those associated with the current local match proposals. Beginning with 1997 calendar year payments, this provision required mass transit aid contracts to specify that DOT has the authority to exclude any costs not consistent with these efficiency standards from eligible operating expenses for state aid purposes and can reduce any system's aid allocation accordingly.

18. DOT indicates that, due to a lack of consensus among those affected, the Department has yet to establish the standards or promulgate the rules. If accountability of local transit systems is a concern, arguably these efficiency standards, along with the ability to reduce state aid for any costs not consistent with these standards, may be a more effective means of addressing this concern. This may be especially true for all of the bus systems and the 14 of the 41 shared-ride taxi systems that are already providing the proposed local match of 10% of operating expenses.

ALTERNATIVES TO BASE

1. Approve the Governor's recommendation to do one or more of the following:

a. Require bus systems to provide a local match, exclusive of user fees, equal to at least 10% of each eligible applicant's annual operating expenses, effective with calendar year 2000 contracts (this would replace the current local match equal to 20% of state aid);

b. Specify that no shared-ride taxi system (except for a system's initial year of service) may receive a state aid amount in excess of the previous calendar year amount unless the system provides a local match equal to at least 5% of the system's operating expenses, effective for calendar year 2000, or 10% of operating expenses, effective beginning with calendar year 2001; and

c. Provide that if an eligible applicant is served exclusively by a shared-ride taxi system and voluntarily complies with the local match requirements, the applicant may be exempt from any required management performance audit.

2. Require bus systems to provide a local match, exclusive of user fees, equal to at least 15% of each eligible applicant's annual operating expenses, effective with calendar year 2000 contracts (this would replace the current local match equal to 20% of state aid).

3. Delete the current local match requirements for bus systems.

4. Specify that DOT may not enter into a mass transit aid contract for any system for calendar year 2000 and thereafter unless the Department has promulgated the administrative rules required under current law for cost-efficiency standards and the contract satisfies the current law requirements related to these standards.

5. Maintain current law.

Prepared by: Al Runde

ATTACHMENT 1

Comparison of Current and Proposed Required Local Match (1999 Contract Data)

	State Aid	Operating Expenses	Current Required Match	Proposed Required Match	Change to Required Match
Tier A Bus					
Madison	$13,300,135	$28,938,828	$2,660,027	$2,893,883	$233,856
Milwaukee County	44,804,319	97,486,568	8,960,864	9,748,657	787,793
Milwaukee USS	5,014,847	10,911,452	1,002,969	1,091,145	88,176
TOTAL	$63,119,301	$137,336,848	$12,623,860	$13,733,685	$1,109,825
Tier B Bus					
Appleton	$1,949,931	$4,881,373	$389,986	$488,137	$98,151
Beloit	499,336	1,250,017	99,867	125,002	25,135
Eau Claire	991,516	2,482,119	198,303	248,212	49,909
Green Bay	2,219,646	5,556,566	443,929	555,657	111,727
Janesville	660,517	1,653,510	132,103	165,351	33,248
Kenosha	1,404,007	3,514,731	280,801	351,473	70,672
La Crosse	1,098,590	2,750,164	219,718	275,016	55,298
Monona	98,144	163,574	19,629	16,357	-3,271
Oshkosh	988,298	2,474,063	197,660	247,406	49,747
Ozaukee County	232,732	387,887	46,546	38,789	-7,758
Racine	1,932,828	4,838,559	386,566	483,856	97,290
Racine-Commuter	469,861	783,102	93,972	78,310	-15,662
Sheboygan	1,093,763	2,738,079	218,753	273,808	55,055
Superior	346,016	866,201	69,203	86,620	17,417
Washington County	129,163	215,271	25,833	21,527	-4,306
Waukesha City	1,461,518	2,646,891	292,304	264,689	-27,615
Waukesha County	1,774,828	4,098,142	354,966	409,814	54,849
Wausau	906,146	2,268,406	181,229	226,841	45,611
TOTAL	$18,256,840	$43,568,655	$3,651,368	$4,356,866	$705,498
Tier C Bus					
Bay Area Rural	$64,717	$176,591	$12,943	$17,659	$4,716
Fond du Lac	563,867	1,538,609	112,773	153,861	41,088
Ladysmith	85,631	233,658	17,126	23,366	6,240
Manitowoc	408,426	1,114,462	81,685	111,446	29,761
Merrill	119,776	326,829	23,955	32,683	8,728
Rice Lake	87,147	237,796	17,429	23,780	6,350
Stevens Point	300,458	819,852	60,092	81,985	21,894
TOTAL	$1,630,022	$4,447,797	$326,004	$444,780	$118,775

ATTACHMENT 2

Comparison of Current Local Match Provided and Proposed Local Match Requirements (1999 Contract Data)

	State Aid	Current Match Provided	Percent of State Aid	Operating Expenses	10% of Operating Expenses	Change from Current Match	15% of Operating Expenses	Change from Current Match
Tier A Bus								
Madison	$13,300,135	$9,037,829	68.0%	$28,938,828	$2,893,883	-$6,143,946	$4,340,824	-$4,697,005
Milwaukee County	44,804,319	16,320,749	36.4	97,486,568	9,748,657	-6,572,092	14,622,985	-1,697,764
Milwaukee USS	5,014,847	3,483,494	69.5	10,911,452	1,091,145	-2,392,349	1,636,718	-1,846,776
TOTAL	$63,119,301	$28,842,073	45.7%	$137,336,848	$13,733,685	-$15,108,388	$20,600,527	-$8,241,545
Tier B Bus								
Appleton	$1,949,931	$1,078,049	55.3%	$4,881,373	$488,137	-$589,912	$732,206	-$345,843
Beloit	499,336	323,507	64.8	1,250,017	125,002	-198,505	187,503	-136,004
Eau Claire	991,516	602,848	60.8	2,482,119	248,212	-354,636	372,318	-230,530
Green Bay	2,219,646	1,067,881	48.1	5,556,566	555,657	-512,224	833,485	-234,396
Janesville	660,517	326,208	49.4	1,653,510	165,351	-160,857	248,027	-78,182
Kenosha	1,404,007	620,906	44.2	3,514,731	351,473	-269,433	527,210	-93,696
La Crosse	1,098,590	425,728	38.8	2,750,164	275,016	-150,712	412,525	-13,203
Monona	98,144	31,400	32.0	163,574	16,357	-15,043	24,536	-6,864
Oshkosh	988,298	550,711	55.7	2,474,063	247,406	-303,305	371,109	-179,602
Ozaukee County	232,732	104,904	45.1	387,887	38,789	-66,115	58,183	-46,721
Racine	1,932,828	716,811	37.1	4,838,559	483,856	-232,955	725,784	8,973
Racine-Commuter	469,861	94,971	20.2	783,102	78,310	-16,661	117,465	22,494
Sheboygan	1,093,763	524,479	48.0	2,738,079	273,808	-250,671	410,712	-113,767
Superior	346,016	259,289	74.9	866,201	86,620	-172,669	129,930	-129,359
Washington County	129,163	55,002	42.6	215,271	21,527	-33,475	32,291	-22,711
Waukesha City	1,461,518	613,756	42.0	2,646,891	264,689	-349,067	397,034	-216,722
Waukesha County	1,774,828	859,257	48.4	4,098,142	409,814	-449,443	614,721	-244,536
Wausau	906,146	505,641	55.8	2,268,406	226,841	-278,800	340,261	-165,380
TOTAL	$18,256,840	$8,761,348	48.0%	$43,568,655	$4,356,866	-$4,404,483	$6,535,298	-$2,226,050
Tier C Bus								
Bay Area Rural	$64,717	$40,562	62.7%	$176,591	$17,659	-$22,903	$26,489	-$14,073
Fond du Lac	563,867	274,064	48.6	1,538,609	153,861	-120,203	230,791	-42,273
Ladysmith	85,631	57,864	67.6	233,658	23,366	-34,498	35,049	-22,815
Manitowoc	408,426	264,776	64.8	1,114,462	111,446	-153,330	167,169	-97,607
Merrill	119,776	35,835	29.9	326,829	32,683	-3,152	49,024	13,189
Rice Lake	87,147	62,313	71.5	237,796	23,780	-38,533	35,669	-26,644
Stevens Point	300,458	210,443	70.0	819,852	81,985	-128,458	122,978	-87,465
TOTAL	$1,630,022	$945,857	58.0%	$4,447,797	$444,780	-$501,077	$667,170	-$278,687

ATTACHMENT 3

Shared-Ride Taxi System Operating Expenses and Local Funding (1999 Contract Data)

	Operating Expenses	Local Funding	% of Expenses	Additional Local Funds Required At 5%	Additional Local Funds Required At 10%
Baraboo	$265,320	$0	0.0%	$13,266	$26,532
Beaver Dam	449,696	0	0.0	22,485	44,970
Berlin	149,540	8,745	5.8	0	6,209
Black River Falls	220,095	5,743	2.6	5,262	16,267
Chippewa Falls	278,088	28,555	10.3	0	0
Clintonville	110,015	12,101	11.0	0	0
Edgerton	89,855	7,237	8.1	0	1,748
Fort Atkinson	267,701	0	0.0	13,385	26,770
Grant County	42,113	6,427	15.3	0	0
Hartford	126,820	10,839	8.5	0	1,843
Jefferson	144,293	8,285	5.7	0	6,145
Lake Mills	68,705	7,605	11.1	0	0
Marinette	263,697	39,456	15.0	0	0
Marshfield	388,973	0	0.0	19,449	38,897
Mauston	147,292	0	0.0	7,365	14,729
Medford	102,426	17,877	17.5	0	0
Monroe	252,065	0	0.0	12,603	25,207
Neillsville	116,664	19,278	16.5	0	0
New Richmond	97,109	6,654	6.9	0	3,057
Onalaska	136,621	19,387	14.2	0	0
Ozaukee County	961,122	122,041	12.7	0	0
Platteville	102,483	6,406	6.3	0	3,842
Plover	117,170	17,636	15.1	0	0
Port Washington	123,812	2,359	1.9	3,832	10,023
Portage	623,270	0	0.0	31,164	62,327
Prairie du Chien	166,922	5,111	3.1	3,235	11,582
Reedsburg	194,650	2,449	1.3	7,284	17,016
Rhinelander	371,819	0	0.0	18,591	37,182
Ripon	146,132	0	0.0	7,307	14,613
River Falls	176,659	21,584	12.2	0	0
Shawano	136,105	0	0.0	6,805	13,610
Stoughton	195,592	0	0.0	9,780	19,559
Sun Prairie	231,021	31,305	13.6	0	0
Viroqua	147,575	5,104	3.5	2,275	9,654
Waterloo	99,875	23,806	23.8	0	0
Watertown	494,506	0	0.0	24,725	49,450
Waupaca	188,532	0	0.0	9,427	18,853
Waupun	79,426	11,890	15.0	0	0
West Bend	593,977	12,207	2.1	17,492	47,190
Whitewater	178,201	12,647	7.1	0	5,173
Wisconsin Rapids	498,580	0	0.0	24,929	49,858
TOTAL	$9,544,517	$472,736	5.0%	$260,657	$582,305