



## Legislative Fiscal Bureau

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May 15, 2003

Joint Committee on Finance

Paper #745

### **Transportation Aid Programs (Transportation -- Local Transportation Aid)**

[LFB 2003-05 Budget Summary: Pages 415 and 416, #1, #2, and #3]

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#### **CURRENT LAW**

General Transportation Aid. General transportation aid is paid to county and other local governments (cities, villages, and towns) to assist in the maintenance, improvement, and construction of local roads. General transportation aid distribution amounts for 2003 are \$90,044,600 for counties and \$283,291,100 for municipalities. The mileage aid rate is set at \$1,825 for 2003. General transportation aid payments are made from two sum certain, transportation fund appropriations.

Mass Transit Operating Assistance. Mass transit operating assistance is available to local governments in areas of the state with populations of 2,500 or more. Calendar year 2003 distribution amounts are \$56,811,800 for Tier A-1 systems (Milwaukee), \$15,166,900 for Tier A-2 systems (Madison), \$21,008,300 for Tier B systems, and \$5,674,400 for Tier C systems. Mass transit aid payments are made from four sum certain, transportation fund appropriations.

Elderly and Disabled Aid. The elderly and disabled county assistance program assists counties in providing transportation services to those people not otherwise having an available or accessible method of transportation. The capital assistance program supplements a federal program that makes capital grants to private, nonprofit organizations providing transportation assistance to the elderly and disabled. In 2002-03, the state provided \$7,925,100 in elderly and disabled county assistance and \$921,900 in capital assistance through separate, transportation fund appropriations.

## **GOVERNOR**

General Transportation Aid. Increase general transportation aid to counties by \$2,857,200 SEG in 2003-04 and \$5,136,400 SEG in 2004-05 to provide a total of \$91,170,200 SEG in 2003-04 and \$93,449,400 SEG in 2004-05. Set the calendar-year distribution at \$92,295,700 for calendar year 2004 and \$94,603,100 for calendar year 2005 and thereafter.

Increase general transportation aid to municipalities by \$8,989,100 SEG in 2003-04 and \$16,159,900 SEG in 2004-05 to provide a total of \$286,832,300 SEG in 2003-04 and \$294,003,100 SEG in 2004-05. Set the calendar-year distribution at \$290,373,400 for calendar year 2004 and \$297,632,700 for calendar year 2005 and thereafter.

Establish the mileage aid rate at \$1,871 for calendar year 2004 and \$1,917 for calendar year 2005 and thereafter. Repeal obsolete statutory references to the 2001 calendar-year mileage aid rate amount, the 2000 and 2001 calendar-year total county and municipal distributions, and the 2001 aid calculation.

Mass Transit Operating Assistance. Provide \$2,067,600 SEG in 2003-04 and \$4,549,500 SEG in 2004-05 in order to increase funding for mass transit operating assistance. The funding would be distributed as follows: (a) \$1,180,600 in 2003-04 and \$2,560,900 in 2004-05 for Tier A-1; (b) \$315,400 in 2003-04 and \$685,600 in 2004-05 for Tier A-2; (c) \$445,700 in 2003-04 and \$1,000,500 in 2004-05 for Tier B transit systems; and (d) \$125,900 in 2003-04 and \$302,500 in 2004-05 for Tier C transit systems.

Set the calendar-year distribution amounts at \$58,192,000 for 2004 and \$59,572,900 for 2005 and thereafter for Tier A-1, \$15,536,600 for 2004 and \$15,908,200 for 2005 and thereafter for Tier A-2, \$21,555,300 for 2004 and \$22,133,700 for 2005 and thereafter for Tier B, and \$5,844,100 for 2004 and \$6,041,400 for 2005 and thereafter for Tier C. Repeal obsolete statutory references relating to aid payments for each tier of systems for calendar years 2000 and 2001.

Elderly and Disabled Aid. Provide \$221,200 SEG in 2003-04 and \$447,900 SEG in 2004-05 for county assistance in the provision of elderly and disabled specialized transportation services. Total state funding would equal \$8,146,300 SEG in 2003-04 and \$8,373,000 SEG in 2004-05.

## **DISCUSSION POINTS**

### **General Transportation Aid**

1. General transportation aids are 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. General transportation aid is calculated and paid on a calendar-year basis, with quarterly payments on the first Monday of January, April, July, and October. The bill would fully fund the last half of calendar year 2003 and provide a 2.5% increase for calendar years 2004 and 2005. Of the \$33,142,600 in funding provided to make the 2.5% annual increase in payments, \$14,359,000 is needed to fully fund 2003 payments, and to continue to fund the 2003 aid levels in 2004 and 2005. Therefore, if a minimum of \$14,359,000 is not provided for transportation aids in the biennium, the funding available for counties and municipalities would be less than the statutory amounts currently scheduled to be provided in 2003 and thereafter. DOT is authorized to prorate aid payments if the statutory distribution amount is not funded at that level.

3. The transportation aid increases provided under the bill are being provided to assist local governments in covering inflationary increases in transportation-related costs. Based on the forecast of the economy by Global Insight, Inc., general inflation is projected to be 1.6% in 2004 and 2.1% in 2005. The amount of above-base funding needed to provide these inflationary increases in the calendar year distributions for both counties and municipalities is \$10,166,300 in 2004-05 and \$17,135,700 in 2004-05. Compared to the bill, these funding levels would represent decreases of \$1,680,000 in 2003-04 and \$4,160,600 in 2004-05. A corresponding inflationary increase in the mileage aid rate would result in mileage aid rates of \$1,854 in 2004 and \$1,893 in 2005.

4. However, providing inflationary increases would not keep pace with the recent growth in eligible costs under the program. The average, annual growth in eligible costs under the program over the past six years of reported costs (1996-2001) was 4.2% for municipalities and 2.7% for counties. Providing a percentage increase in funding that is greater than forecasted inflation would assist local governments in funding these higher costs.

5. During testimony before the Joint Committee on Finance on the 2003-05 biennial budget, DOA indicated that the transportation aid increases were provided as a means to mitigate the impact of any enacted and proposed reductions in general aid to local governments under the state's shared revenue programs. DOA also indicated that because state transportation aid covers only a portion of county and municipal transportation-related costs (2003 payments will cover an average of 23.2% of the 2001 costs submitted), most of the costs are covered by local general fund taxes and state shared revenues. Therefore, providing a transportation aid increase could limit the impact that state general aid reductions have on municipal and county general tax levels.

6. Conversely, transportation aid would be one of only a few major transportation programs receiving funding increases under the bill. Other major programs within DOT would be frozen or receive funding reductions. For example, under the bill, combined funding for major highway development and state highway rehabilitation projects would decrease by 15.7% in 2003-04 and 10.7% in 2004-05, relative to base level funding.

7. Since aids are provided on a calendar-year basis with quarterly payments made

during the year, only one-half of any calendar year 2005 increase would be paid in 2004-05. The remaining portion of any calendar year 2005 increase would have to be funded in each year of the next biennium. This future funding commitment would total \$3,982,700 under an inflationary increase and \$4,783,300 under the 2.5% annual increase included in the bill. If only the \$14,359,000 in funding necessary to cover the 2003 statutory distribution level is provided, no future funding commitment would exist.

### **Mass Transit Operating Assistance**

8. The current system of tiers generally parallels federal aid categories, with tiers for urbanized areas with populations over 200,000 (Tiers A-1 and A-2), 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 they 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.

9. Mass transit aid payments are made from sum certain, transportation fund appropriations. For Tier A-1 and Tier A-2, each system is provided a specified amount of funding for a calendar year. For Tier B and Tier C, DOT makes 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. The combined state and federal aid percentage for Tier B and Tier C systems floats to a level that expends the state funds administered by DOT and the level of federal funds that DOT allocates for operating expenses. Local funds, consisting primarily of local property tax and farebox revenues, finance 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. In 2003, state aid will cover an average of 42.8% of costs for Tier A-1, 42.3% for Tier A-2, 34.3% for Tier B, and 40.2% for Tier C.

10. Historically, the percentage increase in state mass transit aid has been provided on a uniform basis across tiers. Under the bill, total mass transit operating assistance would increase by 2.5% annually in 2004 and 2005. However, different percentage increases for each tier would be provided as follows: (a) a 2.43% increase in 2004 and a 2.37% increase in 2005 for Tier A-1; (b) a 2.44% increase in 2004 and a 2.39% increase in 2005 for Tier A-2; (c) a 2.60% increase in 2004 and a 2.68% increase in 2005 for Tier B transit systems; and (d) a 2.99% increase in 2004 and a 3.38% increase in 2005 for Tier C transit systems.

11. These different percentage increases in funding reflect the varying increases in costs among the various tiers. For example, the growth in operating costs for Tier B and Tier C has outpaced the growth in operating costs for the other tiers. Over the past six years, the average, annual growth has been 8.2% for Tier B and 10.1% for Tier C, compared to increases of 4.3% for Tier A-1 and 4.4% for Tier A-2. Growth in Tier C systems' costs are largely due to an increase in the number of shared ride taxi systems providing transportation services. The number of these

systems has increased from 33 in 1994 to 39 in 2002. In addition, increased ridership for these shared ride taxi systems has required additional vehicles and more driver hours, which can increase costs at a greater pace than the fixed-route bus systems, which can often accommodate increased ridership without incurring as significant increases in cost.

12. As mentioned, the current system of tiers generally parallels federal aid categories, and is determined by the population of the municipality providing the service. Due to the population changes determined under the 2000 federal decennial census and used for federal aid purposes, the Fond du Lac bus system and the Stoughton and Sun Prairie shared ride taxi systems were moved from Tier C and are now included as Tier B systems. The costs associated with these systems were included as part of Tier B systems' costs for 2003. However, the state funding that these systems would have otherwise received remained in the statutory distribution amount for Tier C and could not be transferred along with those costs to Tier B. This will likely result in a lower percentage of Tier B systems' costs being covered by federal and state funding over time.

13. The Committee could transfer the portion of the Tier C state funding associated with these three systems to Tier B in order to remedy the mismatch of state funds among the two tiers that resulted from the change in the composition of the tiers. In 2002, these systems received \$749,300 in state aid in Tier C, which covered 34.2% of the estimated costs of these systems.

14. The mass transit aid increases provided under the bill are being provided to assist local governments in covering inflationary increases in the cost of providing transit services. Based on the forecast of the economy by Global Insight, Inc., general inflation is projected to be 1.6% in 2004 and 2.1% in 2005. The amount of above-base funding needed to provide these inflationary increases in the calendar year distributions for each tier of systems is \$1,845,600 in 2004-05 and \$3,555,800 in 2004-05. Compared to the bill, these funding levels would represent decreases of \$222,000 in 2003-04 and \$993,700 in 2004-05.

15. However, providing inflationary increases would not keep pace with recent growth in eligible costs under the program. Accounting for changes in systems among the tiers, the average, annual growth in eligible costs under the program over the past six years was 4.3% for Tier A-1, 4.4% for Tier A-2, 7.1% for Tier B, and 5.8% for Tier C. Providing the percentage increase in funding included under the bill, which is greater than forecasted inflation, would assist local governments in funding these higher costs.

16. Similar to the increases in general transportation aid, increases in mass transit aid could be seen as a means to mitigate the impact of reductions in general aid to local governments under the state's shared revenue programs. Statewide, local revenues for mass transit will total \$46.7 million in 2003, which will cover an average of 19.1% of mass transit costs. Providing a mass transit aid increase could limit the impact that state general aid reductions and the increased cost of providing transit services will have on municipal general tax levels. If no increase in transit funds is provided, local governments may also choose to reduce services in order to reduce costs or increase fares for transit users. Both of these actions could limit current riders' access to transit services.

17. Conversely, mass transit operating assistance would be one of only a few major transportation programs receiving funding increases under the bill. Other major programs within DOT would be frozen or receive funding reductions. For example, under the bill, funding for major highway development and state highway rehabilitation projects would decrease by 15.7% in 2003-04 and 10.7% in 2004-05, relative to base level funding.

18. State transit aid funds are provided on a calendar-year basis, with quarterly aid payments made in April, July, October, and December. Therefore, a portion of the funding provided under the bill would be needed to fully fund calendar year 2003 amounts. If a minimum of \$1,450,900 annually in mass transit aid would not be provided to fully fund the 2003 calendar year payments, the amount of funding appropriated would not be sufficient to fund the statutory amounts in 2003 and thereafter. In March, 2003, the state entered into contracts with local governments to provide state aid equal to the statutorily-specified amount for each tier in 2003. If those amounts are not provided, aid payments would have to be reduced in 2003 and thereafter, which could lead to a reduction in transit services, increases in transit fares, or local governments having to provide additional funding.

19. Because three of the quarterly transit aid payments are made in July, October and December of each calendar year, only one quarter of any calendar year 2005 increase would be paid in 2004-05. The remaining portion of the calendar year 2005 increase would have to be funded in each year of the next biennium. This future funding commitment would total \$1,578,700 under an inflationary increase and \$1,896,200 under the 2.5% annual increase included under the bill. If only the \$1,450,900 in funding necessary to cover the 2003 statutory distribution level is provided, no future funding commitment would exist.

### **Elderly and Disabled Aid**

20. The state has two programs to finance the improvement of transportation services for the elderly and disabled: a county grant program and a capital grant program. These programs help to provide the benefits of transportation service to those people not otherwise having an available or accessible method of transportation. The 2.5% annual increase in 2003-04 and 2004-05 for elderly and disabled transportation is based on the combined SEG funding for county assistance and capital aids. However, the bill would provide the total increase in the appropriation for county assistance.

21. County assistance is distributed on the basis of each county's share of the state's total elderly and disabled population. Each county must provide a match equal to 20% of its state aid amount. With its state aid, the county may directly provide transportation services, subsidize other systems that provide transportation services, or directly subsidize elderly or disabled persons for their use of existing services, such as taxis. In 2001, the county assistance program helped fund over 3.2 million trips for elderly and disabled citizens. These trips provided elderly and disabled individuals access to medical services, nutritional services, jobs, education and training programs, and other social and personal business engagements.

22. Each of the last four years, the Legislature has provided an increase in the elderly

and disabled county assistance program. The following table provides the recent funding history for the county assistance program.

**Elderly and Disabled County Assistance Funding**

<u>Fiscal Year</u>	<u>County Assistance</u>	<u>Percent Change</u>
1993-94	\$5,132,300	
1994-95	5,199,600	1.3%
1995-96	5,749,600	10.6
1996-97	5,749,600	0.0
1997-98	6,439,600	12.0
1998-99	6,439,600	0.0
1999-00	6,890,400	7.0
2000-01	7,441,600	8.0
2001-02	7,667,400	3.0
2002-03	7,925,100	3.4

23. The increase in funding provided under the bill would assist counties in covering a portion of the increasing costs associated with providing transportation services to the elderly and disabled or to increase the subsidies provided to assist the elderly or disabled in purchasing such transportation services. Based on the forecast of the economy by Global Insight, Inc., general inflation is projected to be 1.6% in 2004 and 2.1% in 2005. The amount of above-base funding needed to provide inflationary increases in the county assistance portion of the program would total \$126,800 in 2004-05 and \$295,900 in 2004-05. Compared to the bill, these funding levels would represent decreases of \$94,400 in 2003-04 and \$152,000 in 2004-05.

24. In 2001, state aid provided under the county assistance program covered \$7.4 million, or 22.1%, of the \$33.4 million in costs associated with counties providing elderly and disabled transportation services to their citizens. The remaining \$26.0 million, or 77.9%, of costs was largely funded from county tax revenues and federal funding sources. If an inflationary increase or the increase recommended under the bill is not provided, it would likely result in higher out-of-pocket costs to users of these transportation services or an even higher portion of the program costs being borne by counties. Higher out-of-pocket costs for users could impact the ability of some users to access the transportation services provided under the program. Instead of increasing the costs to users, counties may choose to fund the higher costs with general revenues, although their ability to do so may be limited given the reductions in county state shared revenue aid in 2004, and thereafter, enacted under 2003 Act 109. Therefore, counties may have to increase general tax revenues to fund the programs or counties may reduce services in order to cut program costs, which could also reduce elderly and disabled citizens' access to transportation services. Providing the aid increase included under the bill could limit the impact that higher program costs will have on program users and county general tax levels in the biennium.

## ALTERNATIVES

### A. General Transportation Aid

1. Approve the Governor's recommendation to provide \$2,857,200 SEG in 2003-04 and \$5,136,400 SEG in 2004-05 to fund a 2.5% annual increase in the calendar year distribution for counties and \$8,989,100 SEG in 2003-04 and \$16,159,900 SEG in 2004-05 to provide a 2.5% annual increase in the calendar year distribution for municipalities. Set the calendar year distribution at \$92,295,700 for calendar year 2004 and \$94,603,100 for calendar year 2005 and thereafter for counties and \$290,373,400 for calendar year 2004 and \$297,632,700 for calendar year 2005 and thereafter for municipalities. Establish the mileage aid rate at \$1,871 for calendar year 2004 and \$1,917 for calendar year 2005 and thereafter. Repeal obsolete statutory references to the 2001 calendar-year mileage aid rate amount, the 2000 and 2001 calendar-year total county and municipal distributions, and the 2001 aid calculation.

2. Modify the Governor's recommendation by deleting \$1,680,000 SEG in 2003-04 and \$4,160,600 SEG in 2004-05 to fund increases in the general transportation aid calendar year distributions for both counties and municipalities of 1.6% in 2004 and 2.1% in 2005 (the projected increases in the consumer price index). In addition, set the calendar-year distribution at \$91,485,300 for calendar year 2004 and \$93,406,500 for calendar year 2005 and thereafter for counties and \$287,823,800 for calendar year 2004 and \$293,868,100 for calendar year 2005 and thereafter for municipalities. Establish the mileage aid rate at \$1,854 for calendar year 2004 and \$1,893 for calendar year 2005 and thereafter. Repeal the obsolete statutory references.

<u>Alternative A2</u>	<u>SEG</u>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$5,840,600

3. Modify the Governor's recommendation by deleting \$4,666,800 SEG in 2003-04 and \$14,116,800 SEG in 2004-05 to fully fund the 2003 calendar year distributions for both counties and municipalities with no increases for calendar years 2004 and 2005. Retain the mileage aid rate at \$1,825 for calendar year 2003 and thereafter. Repeal the obsolete statutory references.

<u>Alternative A3</u>	<u>SEG</u>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$18,783,600

4. Maintain current law regarding general transportation aid funding, distribution levels, and mileage aid rates (no increase in base level funding would be provided, which would require proration of the statutory distributions for calendar year 2003 and thereafter). Repeal the obsolete statutory references.

<u>Alternative A4</u>	<u>SEG</u>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$33,142,600

**B. Mass Transit Operating Assistance**

1. Approve the Governor's recommendation to provide \$2,067,600 SEG in 2003-04 and \$4,549,500 SEG in 2004-05 in order to increase funding for mass transit operating assistance. The funding would be distributed as follows: (a) \$1,180,600 in 2003-04 and \$2,560,900 in 2004-05 to fund a 2.43% increase in 2004 and a 2.37% increase in 2005 for Tier A-1 (Milwaukee); (b) \$315,400 in 2003-04 and \$685,600 in 2004-05 to fund a 2.44% increase in 2004 and a 2.39% increase in 2005 for Tier A-2 (Madison); (c) \$445,700 in 2003-04 and \$1,000,500 in 2004-05 to fund a 2.60% increase in 2004 and a 2.68% increase in 2005 for Tier B transit systems; and (d) \$125,900 in 2003-04 and \$302,500 in 2004-05 to fund a 2.99% increase in 2004 and a 3.38% increase in 2005 for Tier C transit systems. Set the calendar-year distribution amounts at \$58,192,000 for 2004 and \$59,572,900 for 2005 and thereafter for Tier A-1, \$15,536,600 for 2004 and \$15,908,200 for 2005 and thereafter for Tier A-2, \$21,555,300 for 2004 and \$22,133,700 for 2005 and thereafter for Tier B, and \$5,844,100 for 2004 and \$6,041,400 for 2005 and thereafter for Tier C. Repeal obsolete statutory references relating to aid payments for each tier of systems for calendar years 2000 and 2001.

2. Modify the Governor's recommendations by deleting \$222,000 SEG in 2003-04 and \$993,700 SEG in 2004-05 to fund increases in the calendar year distributions for each tier of systems of 1.6% in 2004 and 2.1% in 2005 (the projected increases in the consumer price index). Set the distribution levels for each tier as follows: \$57,720,800 in 2004 and \$58,932,900 in 2005 and thereafter for Tier A-1; \$15,409,600 in 2004 and \$15,733,200 in 2005 and thereafter for Tier A-2; \$21,344,400 in 2004 and \$21,792,600 in 2005 and thereafter for Tier B; and \$5,765,200 in 2004 and \$5,886,300 in 2005 and thereafter for Tier C. Repeal the obsolete statutory references.

<u>Alternative B2</u>	<u>SEG</u>
2003-05 FUNDING (Change to Bill)	- \$1,215,700

3. Modify the Governor's recommendation by deleting \$616,700 SEG in 2003-04 and \$3,098,600 SEG in 2004-05 to fully fund the 2003 calendar year distributions for each tier of transit systems with no increases for calendar years 2004 and 2005. Repeal the obsolete statutory references.

<u>Alternative B3</u>	<u>SEG</u>
2003-05 FUNDING (Change to Bill)	- \$3,715,300

4. Maintain current law regarding mass transit operating assistance funding and distribution levels (no increase in base level funding would be provided, which would require proration of the statutory distributions for calendar year 2003 and thereafter). Repeal the obsolete statutory references.

<b>Alternative B4</b>	<b>SEG</b>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$6,617,100

5. In addition to one of the above alternatives, increase the statutory distribution level for Tier B by \$749,300 in calendar year 2004 and thereafter and decrease the statutory calendar year distribution level for Tier C by \$749,300 in calendar year 2004 and thereafter to reflect the change in the composition of transit systems within these tiers due to the 2000 federal decennial census. In addition, increase the Tier B appropriation by \$187,300 SEG in 2003-04 and \$749,300 SEG in 2004-05 and make corresponding annual decreases in the Tier C appropriation to reflect the transfer of base level funding among the two tiers.

**C. Elderly and Disabled Aids**

1. Approve the Governor's recommendation to provide \$221,200 SEG in 2003-04 and \$447,900 SEG in 2004-05 for the county assistance portion of the elderly and disabled aid program. Total state funding would equal \$8,146,300 in 2003-04 and \$8,373,000 in 2004-05.

2. Modify the Governor's recommendation by deleting \$94,400 SEG in 2003-04 and \$152,000 SEG in 2004-05 to fund increases in the county assistance portion of the elderly and disabled aid program of 1.6% in 2003-04 and 2.1% in 2004-05 (the projected increases in the consumer price index). Total state funding would equal \$8,051,900 in 2003-04 and \$8,221,000 in 2004-05.

<b>Alternative C2</b>	<b>SEG</b>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$246,400

3. Maintain current law (no funding increases would be provided in the biennium). Total state funding would remain at \$7,925,100 annually.

<b>Alternative C3</b>	<b>SEG</b>
<b>2003-05 FUNDING</b> (Change to Bill)	- \$669,100

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