



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #761

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

[LFB 2009-11 Budget Summary: Page 604, #2]

CURRENT LAW

Mass transit operating assistance is available to local governments in areas of the state with populations of 2,500 or more. Calendar year 2009 distribution amounts are \$65,299,200 for Tier A-1 systems (Milwaukee), \$17,158,400 for Tier A-2 systems (Madison), \$24,614,500 for Tier B systems, and \$5,571,800 for Tier C systems. Mass transit aid payments are made from four sum certain, transportation fund appropriations.

GOVERNOR

Provide \$2,285,700 SEG in 2010-11 and \$4,811,500 SEG in 2010-11, distributed as follows: (a) \$1,315,600 in 2009-10 and \$2,782,100 in 2010-11 for Tier A-1 (Milwaukee); (b) \$351,600 in 2009-10 and \$735,400 in 2010-11 for Tier A-2 (Madison); (c) \$504,300 in 2009-10 and \$1,055,000 in 2010-11 for Tier B transit systems; and (d) \$114,200 in 2009-10 and \$239,000 in 2010-11 for Tier C transit systems. Set the calendar year distribution amounts at \$66,585,600 for 2010 and \$68,583,200 for 2011 and thereafter for Tier A-1, \$17,496,400 for 2010 and \$18,021,300 for 2011 and thereafter for Tier A-2, \$25,099,500 for 2010 and \$25,852,500 for 2011 and thereafter for Tier B, and \$5,681,600 for 2010 and \$5,852,200 for 2011 and thereafter for Tier C. Repeal statutory references relating to aid payments for each tier of systems for calendar years 2006 and 2007.

DISCUSSION POINTS

1. The Governor's recommendations represent a 1.97% increase in mass transit assistance to each tier of mass transit systems in calendar year 2010 and a 3% increase in calendar year 2011. An additional \$241,900 in 2009-10 and \$242,000 in 2010-11, in total, would be needed

to fully fund the proposed calendar year increases under the bill. On March 19, 2009, DOA submitted an errata to the Committee that indicated that the appropriation amounts should be increased as follows: \$141,800 in 2009-10 and \$139,500 in 2010-11 for Tier A-1; \$36,200 in 2009-10 and \$37,100 in 2010-11 for Tier A-2; \$52,100 in 2009-10 and \$53,400 in 2010-11 for Tier B; and \$11,800 in 2009-10 and \$12,000 in 2010-11 for Tier C (Alternative 1).

2. The current tier system 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). The Ozaukee County, Washington County, and Waukesha systems are within the Milwaukee urbanized area and the Monona, Stoughton, Sun Prairie, and Verona systems are within the Madison urbanized area for federal aid purposes. However, Verona is the only municipality other than Madison that receives federal aid in the Madison urbanized area. 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. Urban systems that receive direct federal aid must report any federal maintenance funds used to fund annual operating costs.

3. 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 percentages for Tier B and Tier C systems float 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.

4. Bus transit ridership is up nationally, with the number of trips up nearly 14.1% from 2000 to 2007. As a comparison, according to the U.S. Census Bureau, the U.S. population grew by nearly 7.1% over the same period. Several of Wisconsin's transit systems have experienced similar growth in ridership, while others, due to service reductions and/or fare increases, have experienced ridership declines over the same period.

5. Under the 2009 federal American Reinvestment and Recovery Act (ARRA), transit systems in Wisconsin are expected to receive \$81.3 million in federal funding in addition to the state's annual federal transit formula funding apportionment, which totaled \$88.3 million in 2008. The federal ARRA funding has to be used for capital expenditures and not operating costs and would be distributed as follows: \$28.5 million to Milwaukee (Tier A-1); \$9.5 million to Madison (Tier A-2); \$23.2 million to systems in areas between 50,000 and 200,000 in population (Tier B); and \$20.1 million to systems in areas with populations under 50,000 (primarily Tier C systems).

6. Table 1 indicates the total funding provided for mass transit operating assistance over the past 10 years. The program received a significant increase in funding in 2008 and has received steady state funding increases in each of the past four years. Prior to those increases, the program did not receive a funding increase for three of the five prior years. Over the 10-year period, total funding has increased by 21.1%, which equates to a 2.2% average, annual growth rate.

TABLE 1
Mass Transit Operating Assistance Funding
(2000-2009)

<u>Calendar Year</u>	<u>Amount</u>	<u>Percent Change</u>
2000	\$93,006,500	
2001	93,006,500	0.0%
2002	96,726,800	4.0
2003	98,661,400	2.0
2004	98,661,400	0.0
2005	98,661,400	0.0
2006	100,634,600	2.0
2007	102,647,400	2.0
2008	110,013,600	7.2
2009	112,643,900	2.4

7. As indicated in Table 2, state aid as a percentage of costs has generally declined over the past eight years, but did increase in 2008 when state aid was increased by 7.2% in total. Due to federal funding increases and the required reporting of federal capitalized maintenance funds for Tier A-1 and Tier A-2, there has not been a corresponding decrease in the overall percentage of costs covered by state and federal funds. However, the Milwaukee County Transit System has deferred bus purchases and other capital investments by deciding to use its federal transit capital funds for annual bus operations. Consequently, the system has depleted most of its federal capital funds and no longer has the ability to supplement its system operations with these funds. The following table indicates the state funding and combined state and federal funding as a percent of each tier's operating expenses for the past eight years.

TABLE 2
State and Federal Funding as a Percentage of Expenses by Tier

<u>Year</u>	<u>Tier A-1</u>		<u>Tier A-2</u>		<u>Tier B</u>		<u>Tier C</u>	
	<u>State Aid Percentage</u>	<u>Combined State/Federal Percentage</u>						
2001	42.2%	51.5%	35.7%	44.6%	39.1%	60.0%	34.2%	66.4%
2002	42.2	51.1	41.2	50.8	36.8	60.4	35.1	65.4
2003	42.8	53.0	42.3	52.5	34.3	60.0	40.2	66.4
2004	40.9	52.7	41.4	53.4	35.2	60.0	34.6	64.5
2005	40.6	53.7	38.4	50.7	33.3	58.9	32.5	64.8
2006	40.7	53.6	37.3	50.2	31.9	60.0	31.8	64.8
2007	39.3	50.8	35.4	47.7	30.6	58.0	30.7	64.9
2008	40.3	53.2	34.3	45.8	31.3	57.3	31.0	64.7

8. Under the bill, many other state aid programs, including general transportation aid and county and municipal aid, would receive a reduction in funding in the biennium. General transportation aid funding and county and municipal aid funding would both be reduced by 1% in 2010, with no increase in 2011. In contrast to these reductions to other local aid programs, the Governor's recommendations include additional funding for several transit programs and initiatives, including additional elderly and disabled county assistance funding, state funding for a newly-created intercity bus program, allowing for the creation of regional transit authorities, and a southeast transit capital assistance program. The Executive Budget Book indicates that the Governor's recommendations related to transit, including the proposed mass transit operating assistance increases, are needed in order to maintain and improve Wisconsin's public transit service.

9. Statewide, local revenues for mass transit totaled \$60.0 million in 2008, which covered an average of 19.9% of mass transit costs for that year. These local revenues for transit expenses are primarily funded from local property taxes. Correspondingly, an increase in mass transit aid could be seen as a means to mitigate the impact of providing reductions in other state aid programs that provide funds to counties and municipalities. In addition, providing a mass transit aid increase could help offset the impact of any local levy limit imposed on counties and municipalities. If no increase in transit funds is provided, local governments may choose to reduce services in order to reduce costs that would otherwise have to be funded from general property taxes, or they may increase fares for transit users. Both of these actions could limit current riders' access to transit services.

10. Some have contended that because revenues to the transportation fund are paid from citizens who travel roads throughout the state, a consistent portion of those revenues should be redistributed to local units of government to assist in maintaining their transportation infrastructure. In 2008-09, local transportation aid programs, including the mass transit assistance program, general transportation aid, local road improvement, and other transportation programs that provide assistance to local units of government, were funded at a level equal to 36.5% of net transportation fund revenues. Under the bill, as introduced, these programs would receive a slightly smaller percentage share of net transportation fund revenues, estimated at 36.3% in 2009-10 and 35.4% in 2010-11.

11. Table 3 shows the funding amounts associated with several annual percentage rate changes for the mass transit operating assistance program (due to the difference between the state's fiscal year and the transit aid payment dates, above-base funding would be required even with no calendar year increase or a 1% annual calendar year decrease).

TABLE 3**Potential Funding Changes**

Annual % Change	Above-Base Increase		Change to Bill	
	2009-10	2010-11	2009-10	2010-11
-1.0%	\$1,691,200	\$567,500	-\$594,500	-\$4,244,000
0.0	1,972,700	1,972,700	-313,000	-2,838,800
1.0	2,254,300	3,383,600	-31,400	-1,427,900
1.97/3.0 (Bill)	2,527,600	5,053,500	241,900	242,000
2.0	2,536,000	4,800,000	250,300	-11,500
3.0	2,817,600	6,222,400	531,900	1,410,900

12. Because the quarterly transit aid payments are made in April, July, October, and December of each calendar year, only one quarter of any calendar year 2011 increase (the April payment) would be paid in 2010-11. The remaining portion of the calendar year 2011 increase would have to be funded in each year of the next biennium. This future funding commitment would total \$2,584,500 under the 2011 funding level included under the bill. If no increase is provided over the 2010 statutory distribution level, no future funding commitment would exist.

13. Similarly, if no funding increase is provided over the 2008-09 base level funding amount, the appropriation levels for the 2009-11 biennium would not be sufficient to fund the 2009 statutory distribution level under current law. In order to fully fund the 2009 increase, AB 75 provides \$1,135,800 annually for Tier A-1, \$303,300 annually for Tier A-2, \$435,100 annually for Tier B, and \$98,500 annually for Tier C. If no increases to base level funding are provided, DOT would have to prorate payments in 2009 and thereafter at 98.25%.

Commuter Rail and Light Rail Projects

14. An earlier Committee action enumerated three projects as major transit capital improvement projects: a Kenosha-Racine-Milwaukee (KRM) commuter rail project, a Dane County commuter rail project, and a project resulting from the Milwaukee Downtown Transit Connector study of the Wisconsin Center District. Currently, all mass transit systems receiving state aid operate either buses or shared-ride taxis. However, the statutory definition of a mass transit system includes transportation by rail, if it provides the public with general or special service on a regular and continuing basis and operates in an urban area. If the Department determines that any of these major transit projects qualify for aid as an urban mass transit system, the aid would be paid to the sponsoring unit of government, which can include a transit authority. However, given that the state has never provided operating assistance to a major commuter rail or light rail system, the existing transit formula and tiers of systems may need to be amended in order to incorporate such service.

15. Although the current tier structure was established with bus and shared-ride taxi systems in mind, given the most recent estimate of annual operating costs for the KRM commuter rail project, the system could be placed in with the Tier B systems if no alternate tier structure is enacted. Based on 2008 data, such an action would have reduced the combined state and federal

aid percentage for this tier from 57.3% to 52.8%, absent additional state funding. If the Committee is interested in precluding these commuter rail and light rail projects from receiving state operating assistance funding through the existing tier structure, the Committee could establish a separate tier for such projects, but provide no funding at this time (Alternative 3). This alternative would create a separate tier and appropriation for such systems in order to ensure that the sponsors of such projects would not automatically have access to funding appropriated for the other tiers of systems. Specifically, the Committee could establish a Tier A-3 under the state's mass transit operating assistance program, which would include any commuter or light rail mass transit projects that have been enumerated as a major transit capital improvement in the statutes. Aid for such systems could be provided to equal a uniform percentage of operating costs paid through state and federal aid. The existing program requirements could apply to any system providing service under one of those projects, including the requirement that the system provide local, nonfarebox revenue equal to 20% of the state aid amount.

16. Regardless of whether any funding is provided at this time, the creation of a separate Tier A-3 and an appropriation to assist in funding the operations of such major transit projects could be seen as the state creating an expectation that state operating assistance would be provided for such projects at some point in the future. Given the relatively narrow revenue base for the transportation fund, some may argue that such a commitment should not be made unless it is done using a general fund appropriation (Alternative 4). Others may prefer that the statutes be amended to specify that service provided through such major transit projects would not be eligible for mass transit operating assistance (Alternative 5). This would leave the question of whether such service should be subsidized by the state to a future Legislature.

ALTERNATIVES

1. Approve the Governor's recommendation, as modified, to provide \$2,527,600 SEG in 2009-10 and \$5,053,500 SEG in 2010-11 distributed as follows: (a) \$1,457,400 in 2009-10 and \$2,921,600 in 2010-11 for Tier A-1 (Milwaukee); (b) \$387,800 in 2009-10 and \$772,500 in 2010-11 for Tier A-2 (Madison); (c) \$556,400 in 2009-10 and \$1,108,400 in 2010-11 for Tier B transit systems; and (d) \$126,000 in 2009-10 and \$251,000 in 2010-11 for Tier C transit systems.

Set the calendar year distribution amounts at \$66,585,600 for 2010 and \$68,583,200 for 2010 and thereafter for Tier A-1, \$17,496,400 for 2010 and \$18,021,300 for 2011 and thereafter for Tier A-2, \$25,099,500 for 2010 and \$25,852,500 for 2011 and thereafter for Tier B, and \$5,681,600 for 2010 and \$5,852,200 for 2011 and thereafter for Tier C. Repeal statutory references relating to aid payments for each tier of systems for calendar years 2006 and 2007.

ALT 1	Change to Bill
	Funding
SEG	\$483,900

2. Modify the Governor's recommendation by providing annual mass transit aid changes (SEG) for 2010 and 2011 at one of the following percentages. Set the distributions for each tier and change the mass transit aid appropriations as shown below:

	Calendar Year		Change to Bill	
	Distribution Amounts			
	<u>2010</u>	<u>2011*</u>	<u>2009-10</u>	<u>2010-11</u>
a. -1%/-1%				
Tier A-1	\$64,646,200	\$63,999,700	-\$343,000	-\$2,460,900
Tier A-2	16,986,800	16,816,900	-91,200	-646,200
Tier B	24,368,400	24,124,700	-130,700	-926,900
Tier C	<u>5,516,100</u>	<u>5,460,900</u>	<u>-29,600</u>	<u>-210,000</u>
	\$111,517,500	\$110,402,200	-\$594,500	-\$4,244,000
b. No Change				
Tier A-1	\$65,299,200	\$65,299,200	-\$179,800	-\$1,646,300
Tier A-2	17,158,400	17,158,400	-48,300	-432,100
Tier B	24,614,500	24,614,500	-69,200	-619,900
Tier C	<u>5,571,800</u>	<u>5,571,800</u>	<u>-15,700</u>	<u>-140,500</u>
	\$112,643,900	\$112,643,900	-\$313,000	-\$2,838,800
c. 1%/1%				
Tier A-1	\$65,952,200	\$66,611,700	-\$16,500	-\$828,400
Tier A-2	17,330,000	17,503,300	-5,400	-217,200
Tier B	24,860,600	25,109,200	-7,700	-311,600
Tier C	<u>5,627,500</u>	<u>5,683,800</u>	<u>-1,800</u>	<u>-70,700</u>
	\$113,770,300	\$114,908,000	-\$31,400	-\$1,427,900
d. 2%/2%				
Tier A-1	\$66,605,200	\$67,937,300	\$146,700	-\$7,300
Tier A-2	17,501,600	17,851,600	37,500	-1,400
Tier B	25,106,800	25,608,900	53,900	-2,100
Tier C	<u>5,683,200</u>	<u>5,796,900</u>	<u>12,200</u>	<u>-700</u>
	\$114,896,800	\$117,194,700	\$250,300	-\$11,500
e. 3%/3%				
Tier A-1	\$67,258,200	\$69,275,900	\$310,000	\$817,100
Tier A-2	17,673,200	18,203,400	80,400	215,300
Tier B	25,352,900	26,113,500	115,400	308,700
Tier C	<u>5,739,000</u>	<u>5,911,200</u>	<u>26,100</u>	<u>69,800</u>
	\$116,023,300	\$119,504,000	\$531,900	\$1,410,900

*And thereafter.

3. Establish a Tier A-3 under the state's mass transit operating assistance program, which would include any commuter or light rail mass transit project that has been enumerated as a major transit capital improvement in the statutes. Specify that DOT would calculate aid for such systems so that they receive combined state and federal operating assistance equal to a uniform percentage of their operating costs. Specify that existing program requirements would apply to a Tier A-3 system, including the requirement that the system must provide local, nonfarebox revenue equal to 20% of the amount of state aid. Create a sum certain, SEG appropriation for the purposes of making payments to the sponsors of such systems, but provide no funding at this time.

4. Establish a Tier A-3 as under Alternative #3, but create a sum certain, GPR appropriation for this purpose, rather than a SEG appropriation.

5. Specify that service provided by any commuter or light rail mass transit project that has been enumerated as a major transit capitol improvement in the statutes would be ineligible for aid under the mass transit operating assistance program.

6. Delete provision. (No increase to base level funding would be provided and payments would be prorated.)

ALT 6	Change to Bill
	Funding
SEG	- \$7,097,200

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