Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: http://legis.wisconsin.gov/lfb

May 23, 2013 Joint Committee on Finance Paper #640

Mass Transit Operating Assistance -- Convert Funding to GPR and Mass Transit Funding Level (DOT -- Local Transportation Aid)

[LFB 2013-15 Budget Summary: Page 455, #1]

CURRENT LAW

Mass transit operating assistance is funded from the segregated transportation fund. The distribution of mass transit aid payments consists of the following four tiers: (a) Milwaukee County/Transit Plus in Tier A-1; (b) Madison in Tier A-2; (c) the larger bus and shared-ride taxi systems in Tier B; and (d) smaller bus and shared-ride taxi systems in Tier C. Total, annual funding to all tiers of systems is $106,478,300 SEG.

GOVERNOR

Funding Source

Provide $106,478,300 GPR in 2014-15 and make a corresponding reduction of $106,478,300 SEG in 2014-15 to reflect the conversion of the mass transit operating assistance program funding from the transportation fund to the general fund, effective July 1, 2014. Create new, GPR appropriations for each of the tiers of systems to fund the 2014-15 payments. Modify statutory references to reflect the new appropriations. Effective July 1, 2015, repeal the SEG mass transit operating assistance appropriations, statutory references to those appropriations, and statutory references to aid distributions for Tiers A-1 and A-2 for calendar years 2012 and 2013.

Funding Level

No additional funding would be provided for mass transit operating assistance. Base level funding of $106,478,300 would be provided in each year of the biennium. Calendar year distributions for 2014 and thereafter would equal $61,724,900 for Tier A-1, $16,219,200 for Tier A-2, $23,544,900 for Tier B, and $4,989,300 for Tier C.

DISCUSSION POINTS

1. 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, the Department of Transportation (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 these tiers, each system's share of the state funding is affected by the cost changes of the other systems, as well as its own costs.

2. Under the Governor's budget recommendations, beginning in 2014-15, the mass transit operating assistance program would be funded from a GPR appropriation rather than from a transportation fund SEG appropriation. The bill would provide $106,478,300 GPR in 2014-15 and make a corresponding reduction of $106,478,300 SEG in 2014-15 to reflect this conversion. Unless readdressed by a future Legislature, this action would result in the state's mass transit assistance program being funded from the general fund on an ongoing basis, and would result in an ongoing reduction in appropriations for this purpose from the transportation fund.

3. The proposed conversion of the mass transit operating assistance program funding from the transportation fund to the general fund is one of a number of related proposals being made under the Governor's budget. In addition to the current law deposit of 0.25% of general fund taxes to the transportation fund (estimated at $35,127,000 in 2013-14 and $36,302,500 in 2014-15), the Governor is proposing additional, one-time transfers of general fund revenues ($23,000,000 in 2013-14) and segregated fund revenues ($16,000,000 annually from the petroleum inspection fund) to the transportation fund. Finally, the budget would fund a portion of the Zoo Interchange construction project with $200 million in general fund-supported borrowing.

4. The use of general fund revenues and general fund-supported bonds has been justified as a means of compensating for past transfers out of the transportation fund. However, under provisions of the bill the cumulative use of general fund revenues and bonds would exceed the accumulated previous transfers from the transportation fund by the end of the 2013-15 biennium. Table 1 shows the 10-year history of transfers (or other inter-fund assistance) between the transportation fund and the general fund, plus the proposed use of general fund resources for transportation programs in the 2013-15 biennium under the bill, and the 12-year cumulative total. In the table, a loss to transportation programs is expressed as a negative number, while the use of general fund bonds or revenues for transportation programs is expressed as a positive number. In the last two biennia and the 2013-15 biennium, the net, positive totals reflect a gain to transportation programs, and the 12-year total, $300.8 million, reflects what would be the cumulative gain for transportation programs under the bill.

TABLE 1

Net Loss/Gain to Transportation Programs Due to Transfers
($ in Millions)

	2003-05	2005-07	2007-09	2009-11	2011-13	2013-15**	12-Year Total
Transfers and Appropriations	-$682.6	-$431.7	-$162.0	-$125.6	$0.0	$0.0	-$1,401.9
General Fund-Supported Bonds	565.5	250.0	50.0	204.7	115.4	$200.0	1,385.6
Reverse Transfers	0.0	0.0	0.0	0.0	160.1	200.9***	361.0
Trans. Fund Debt Service	-43.9*	0.0	0.0	0.0	0.0	0.0	-43.9
Total Loss (-)/Gain (+)	-$161.0	-$181.7	-$112.0	$79.1	$275.5	$400.9	$300.8

* In the 2003-05 biennium, debt service on replacement bonds was initially paid from the transportation fund.
** Amounts reflect the Governor's budget proposal.
*** For 2013-15, "reverse transfers" includes the proposed use of general fund revenues for mass transit assistance, plus ongoing and proposed one-time transfers.

5. The DOT Secretary, in testimony provided to the Joint Finance Committee on the Governor's 2013-15 budget recommendations, indicated that the shift in funding for transit from the transportation fund to the general fund is consistent with the idea that the state's transportation system is a user fee funded system. Unlike the registration fees and motor vehicle fuel taxes paid by users of the state's highway system, transit users do not pay into the fund. Rather, mass transit user fees (fares) are collected at the local level and, therefore, are not deposited in the state transportation fund, and yet transit users receive financial support from the fund. Further, transit systems are exempt from the state's motor vehicle fuel tax and thus do not provide revenues to the transportation fund. To the extent that the transportation fund is primarily reserved for programs with a direct relationship to the user fees that are deposited in the fund, some argue that the fund should not be the source of mass transit aids. The switch from the transportation fund to the general fund as the source of mass transit aids, as proposed under the bill, would be consistent with that argument.

6. Traditionally, the state has not tied spending on a particular transportation project or program to the amounts generated from specific users of that project or program. This would require the state to better understand which regions, or groups, pay more in transportation taxes and fees and provide transportation programming and funding to each region or group equal to those tax and fee amounts. Rather, all transportation programs have been supported from the transportation fund in the interest of establishing a comprehensive, multimodal transportation system, which include roads, transit, trains, airports, harbors, bike paths, and pedestrian friendly designs and walkways. In some cases, the amount spent for a particular part of the system may exceed the amount of user revenue generated from that part. For instance, within the state's road and highway network, because of low population and traffic density, some parts of the system cost more to build and maintain than the amount of road user fees that are generated on those parts. As a result, costs in excess of associated user revenues are, in effect, paid by users of other parts of the state's transportation system. Some may contend that the proposal to remove mass transit aid from this

financing system may be justified by the user fee principle outlined earlier, but others note that mass transit is only one of various parts of the overall transportation system that are not fully covered by direct user fees.

7. Several other arguments have been made in support of using highway user fees for mass transit costs. First, the presence of a reliable mass transit system may reduce road congestion by providing a transit option for persons who would otherwise drive in a personal vehicle. Since those who continue to drive in a personal vehicle benefit from this reduced congestion, it may be reasonable to levy a fee on those drivers to pay for that benefit. Second, while the construction of freeways has made travel faster and easier for those who have access to personal vehicles, it may have had a detrimental effect on urban mass transit systems by reducing the density of residential and commercial development. Providing mass transit services in lower density urban and suburban areas is more costly on a per-rider basis, thus necessitating a non-fare subsidy to continue serving persons who are transit dependent. Consequently, the payment of a portion of the highway user fees to support mass transit systems may be appropriate to compensate for these negative effects.

8. The mass transit assistance program began in 1973 and has been funded from the segregated transportation fund, or its predecessor fund, since 1976-77. Concerns have been raised that funding the state's mass transit operating assistance program from the general fund could make it more difficult for the program to receive consistent funding increases in the future. This stems from concerns that the state's general fund has been under consistent budget stress in recent years and that the mass transit operating assistance program would have a more difficult time competing for funding increases given the continued, significant funding priorities facing the general fund. Recent funding changes for two local aid programs may illustrate this concern. The mass transit operating assistance program has received funding increases in six of the past ten years while funded from the transportation fund. Despite receiving a 10% reduction in calendar year 2012, overall mass transit aid funding increased by 7.9% over the ten-year period. Comparatively, funding for the state's county and municipal aid program (previously called the shared revenue program), provided through the general fund, has decreased by 17.5% over the same ten-year period.

9. However, as the DOT Secretary also testified before the Committee, converting the funding for mass transit aids to the general fund would place it in a fund that has experienced more natural revenue growth. As incomes rise and the prices and total sales of taxable goods and services rise, overall general fund revenues rise. Conversely, the transportation fund revenues are primarily from motor vehicle fuel excise taxes or flat fees, which are dependent on the growth in the consumption of motor vehicle fuel and on the purchase, or use, of motor vehicles on state highways. The growth in both vehicle miles travelled and the number of registered vehicles in the state has been limited in recent years. For the 2013-15 biennium, gross transportation fund revenues are expected to increase by 1.0% in 2013-14 and 0.5% in 2014-15, while general fund taxes, under current law, are expected to increase by 2.1% in 2013-14 and 3.6% in 2014-15.

10. Counter to the previous point, while the taxes and fees deposited to the state's general fund may experience more natural growth, the availability of general fund revenues may be more susceptible to large swings in the overall economy. While natural growth in the transportation

fund may be more limited, the revenue sources for, and funding demands placed upon, the transportation fund could be considered more stable in severe economic times. Price and income-based taxes in the general fund can be impacted significantly by changes in the economy. Also, during tough economic times, the state generally experiences growth in demand for health and human services programs that are funded from the general fund. This dilemma was outlined in the general fund revenue and expenditure highlights included in the state's 2008-09 Annual Fiscal Report, which indicated that 2008-09 "was deeply affected by the nation's worst economic crisis in decades. Decreases in tax collections were met with increased demand and need for assistance." That report indicated that state income taxes fell by 7.3% in 2008-09 compared to 2007-08 and state sales and use tax revenues fell by 4.3% over the same period. By comparison, state motor vehicle fuel tax revenues declined by 3.1% over the same one-year period.

11. The use of a portion of the motor fuel tax for mass transit assistance has been federal policy since the passage of the Surface Transportation Assistance Act of 1982. Currently, 2.86 cents per gallon of the 18.4 cent-per-gallon federal tax on gasoline (15.5%), as well as 2.86 cents of the 24.4 cent-per gallon tax on diesel fuel (11.7%) is deposited in the federal mass transit account, for payment of federal mass transit aid. Mass transit funding under the bill in 2014-15 is equivalent to 3.35 cents per gallon at the state level, or 10.9% of total motor fuel tax collections. On a total revenue basis, mass transit funding would equal 6.1% of the gross revenues (excluding transfers from other funds) for 2014-15.

12. When legislative bodies face decisions like the proposed conversion of mass transit funding from the segregated, transportation fund to the general fund, questions often arise as to how other states have chosen to fund their transit assistance programs. However, such a comparison may not be particularly meaningful because states tend to differ in the composition of revenues deposited to their transportation and general funds. According to the American Association of State Highway and Transportation Officials (AASHTO) 2012 Survey of State Funding for Public Transportation, 20 states provide some level of transit funding from revenue sources (motor vehicle fuel tax and registration fees) similar to those deposited to the state's transportation fund. Also, the AASHTO survey indicates that 13 states use general fund revenues to fund transit. However, the general fund in some of those states includes revenues from motor vehicle fuel-related sales taxes. For example, while the AASHTO survey indicates that Illinois provides general fund assistance for transit, the Illinois general fund receives revenues from a 6.25% sales tax on motor vehicle fuel (at $3.60 per gallon, less state and federal excise taxes, the tax currently equates to 20.2 cents per gallon), which is in addition to the state's excise tax on motor vehicle fuel.

13. All but five states (Alabama, Arizona, Hawaii, Nevada, and Utah) provide either operating or capital assistance to their local transit systems, with most states providing both types of funding. Annual state funding levels range from less than $1 million in smaller states to nearly $3.0 billion in the more heavily populated states. Also, in addition to state funding, several states authorize counties, municipalities, or transit authorities to impose regional general sales and use taxes to assist with the costs of transit capital and operating expenses. From a policy perspective, a dedicated local sales tax authority for transit may be similar to a user fee in that the population that benefits the most from having viable transit service as part of their region's overall transportation system would be paying for that service from a revenue source generated in the region.

14. A March 28, 2013, LFB memorandum indicated that, under the Governor's budget, the state would need $326 million in 2015-16 and $338 million in 2016-17 to balance the 2015-17 general fund budget (the figures reflect advance commitments and do not consider any revenue growth or any changes in caseload or population affecting state expenditures). Because the Governor's recommendation provides the GPR funding for transit in 2014-15, the base year for the 2015-17 biennial budget, the proposed conversion of transit funding to GPR is included in the base funding used in that calculation and does not add to the unfunded advanced commitments.

15. Two years ago, under his 2011-13 biennial budget recommendations, the Governor included the same recommendation to convert the funding source for the mass transit operating assistance program to GPR. However, the Legislature deleted the funding conversion and instead provided a one-time deposit of general fund revenues into the transportation fund. As a result, under the 2011-13 budget (Act 28), the mass transit assistance program continued to be funded from the transportation fund, and GPR revenues reimbursed the transportation fund to effectively fund a portion of those program costs in the biennium. If the Committee chose a similar option, the net effect to the general fund in the 2013-15 biennium would be the same as the under the bill: a $106,478,300 GPR transfer to the transportation fund and a $106,478,300 reduction in GPR expenditures associated with deleting the conversion of transit funding to GPR. However, because the GPR transfer would be one-time, the amounts needed to balance the 2015-17 general fund budget would be reduced by $106,478,300 annually ($212,956,600 in the 2015-17 biennium). Conversely, the amounts needed to balance the transportation fund in the 2015-17 biennium would increase by the same amount (Alternative A2).

Funding Level

16. The Governor's recommendation would not provide any increase in mass transit operating assistance in the biennium. Table 2 indicates the total funding provided for mass transit operating assistance over the past eight years and the two years of the upcoming biennium under the bill. The program received annual increases from 2006 through 2011. However, almost 60% of the total increase provided over that period was eliminated by the significant reduction in funding included under Act 28, and the aid level provided the past two years and under the bill will be at its lowest level since 2007. It should also be noted that while mass transit aid was reduced by 10% in 2012, a new transit-related program that funds local paratransit needs was created under Act 28 and was provided $2.5 million annually in funding.

TABLE 2

Mass Transit Operating Assistance Funding (2006-2015)

Calendar Year	Amount	Percent Change
2006	$100,634,600	
2007	102,647,400	2.0%
2008	110,013,600	7.2
2009	112,643,900	2.4
2010	114,863,100	2.0
2011	118,309,200	3.0
2012	106,478,300	-10.0
2013	106,478,300	0.0
2014*	106,478,300	0.0
2015*	106,478,300	0.0

*Proposed.

17. During deliberations on the 2011-13 budget, it was argued that the funding reductions for transit and other local aid programs would be offset by the changes to the state's collective bargaining laws included under 2011 Act 10. It was believed by some that the Act 10 changes would lead to reduced payroll costs for local governments, which would allow them to absorb the state aid reductions. Specifically, the Act 10 provisions that required local employees to pay the full employee share of their pension contributions (currently 6.65% of salary) and additional health care premiums, both previously paid by the governmental employer, were cited as the means by which local governments could reduce their payroll costs. However, many transit systems in southeastern Wisconsin, including Milwaukee County Transit, as well as most shared-ride taxi operations, are not run by the municipal government whose area they serve. Rather, these systems are operated by private transit companies or contractors. Also, Act 28 modified the Act 10 provisions to exempt transit workers from those provisions if the Wisconsin Employment Relations Commission (WERC) determines that a transit system operator could lose federal transit funding, under a federal labor law provision. WERC has indicated that they have allowed individual municipalities or systems with transit employee staff, along with their collective bargaining units, to make the determination of whether they are at risk of losing federal aid, and thus their transit employees are exempt from the Act 10 collective bargaining provisions. As a result, most, if not all, transit systems have not experienced the payroll cost reductions that were cited as the basis for the 10% cut in their aid.

18. During public hearings on the 2013-15 biennial budget, Committee members heard considerable testimony on the need to restore some or all of the 10% reduction made to the state's mass transit aid program in the 2011-13 budget. Municipal officials, transit officials, transit riders, and in the case of Milwaukee County Transit, private business officials and their organizations, provided testimony in favor of continuing to fund transit from the transportation fund and restoring the 10% reduction. They indicated that mass transit is crucial in building global competiveness and

in attracting and retaining businesses and employee talent.

19. Many contend that a having a vital and expanding transit system is a crucial component of the overall transportation system, and is necessary to provide a mobility option to an aging population. Also, numerous studies have shown that those between ages 18 and 30 are driving less and are less likely to own a car. A recent University of Michigan Transportation Research Institute study indicated that fewer people between the ages of 18 and 25 are getting driver's licenses. The study's authors note that one reason for this is that young people are moving in increasing numbers to cities with reasonable public transportation systems. Some contend that additional investments in transit are needed to remain competitive in encouraging younger workers to remain in, or relocate to, the state.

20. The Wisconsin Transportation Finance and Policy Commission recommended the restoration of the $9.3 million cut to the mass transit aid program under the 2011-13 biennium (this amount equals the $11.8 million annual reduction in transit aid less the $2.5 million annually provided in 2011-13 through the supplemental paratransit aid program). In addition to the restored funding, the Commission recommended that the state provide another $1 million annually in transit aid (Alternative B2e approximates the Commission's funding recommendation).

21. Table 3 compares the number of unlinked transit trips (the number of passengers who board public transportation vehicles) in Wisconsin in 2002 and 2011, as reported to the National Transit Database, for the state's larger transit systems. The figures for 2011 are the most recent available, but are prior to the Act 28 reductions, which first affected calendar year 2012. As indicated in the table, the total number of unlinked transit trips for bus and on demand services for these 15 systems was 16.9% lower in 2011 than in 2002. However, this does not provide the entire picture of transit demand in the state. As shown, several systems experienced significant growth in the number of transit trips in 2011 compared to 2002. Perhaps even more significant, is that several systems, most notably, Milwaukee County Transit, due to funding concerns, have made significant reductions in service. These restrictions in service supply have reduced transit demand significantly for that system. As shown in Table 3, excluding Milwaukee County Transit, the number of transit trips for the remaining 14 systems was 17.9% higher in 2011 than in 2002.

TABLE 3

Comparison of Unlinked Transit Trips in 2002 and 2011

	2002	2011	Percentage Change
Washington County	55,942	227,138	306.0%
Waukesha	807,591	1,260,467	56.1
Madison	11,144,325	15,192,912	36.3
La Crosse	977,380	1,326,490	35.7
Ozaukee County	173,778	193,951	11.6
Appleton	1,165,818	1,251,119	7.3
Wausau	779,459	797,445	2.3
Oshkosh	1,017,029	1,029,866	1.3
Janesville	473,676	459,557	-3.0
Green Bay	1,782,904	1,605,624	-9.9
Kenosha	1,806,896	1,618,585	-10.4
Eau Claire	1,248,426	1,104,317	-11.5
Racine	1,812,512	1,571,354	-13.3
Sheboygan	642,510	515,098	-19.8
Milwaukee County	64,033,885	44,886,663	-29.9
15-System Total	87,922,131	73,040,586	-16.9%
Total (without Milwaukee County)	23,888,246	28,153,923	17.9%
Nationally (Bus and Demand Response*)	5,346,300,000	5,812,800,000	8.7%
Nationally (All Modes)	9,016,700,000	10,085,400,000	11.9%

*Demand response is a transit mode comprised of cars, vans, or small buses operating in response to calls for service.

22. While transit service and transit trips have declined for Milwaukee County and other major systems in the state, due primarily to service cutbacks and fare increases, Table 3 indicates that nationwide unlinked bus and on demand transit trips increased by 8.7% in 2011 compared to 2002. When all modes are considered, nationally, transit trips increased by 11.9% in 2011, when compared to 2002. According to the American Public Transportation Association, transit ridership hit near-historic highs in 2012. During the past 50 years, only 2008 had more riders, when record gas prices encouraged commuters to take buses and trains. Light rail systems saw the largest rise in ridership in 2012. According to the National Conference of State Legislatures, hundreds of new and expanded transit services and systems are being built across the country as states and communities are supporting transit-oriented development to bolster ridership and spur economic development.

23. 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 increase (the April payment) would be paid in the corresponding fiscal year. If annual increases are provided, the remaining portion of the calendar year increase would have to be funded in next fiscal year, which would

increase the future commitments on the general fund, or on the transportation fund, depending on the source the Committee decides to fund transit from in the next biennium. This future commitment could be avoided if any funding increase is provided in 2014, with no additional increase in 2015. Table 4 shows the additional funding that would be needed to fund various increases in mass transit aid beginning in calendar year 2014, including an increase that would restore the 10% reduction (the 11.1% increase) under Act 28. The additional funding provided in 2013-14 would be SEG funding from the transportation fund, while the additional funding provided in 2014-15 would either be GPR or SEG, depending on the Committee's decision on the Governor's recommendation to convert the funding source for transit.

TABLE 4

Potential Funding Changes

2014 Change	SEG 2013-14	GPR or SEG 2014-15
2.0%	$532,400	$2,129,600
4.0	1,064,900	4,259,200
6.0	1,597,300	6,388,800
8.0	2,129,600	8,518,200
10.0	2,661,900	10,647,800
11.1 (Pre-Act 28)	2,957,700	11,830,900

24. The ability to fund an increase in mass transit aid may be limited if the Committee decides to maintain SEG funding for the program. Based on the Committee's actions to date, the transportation fund balance under AB 40 at the close of the 2013-15 biennium is estimated at -$54.3 million. Although some have pointed to increases in the state highway program as a reason to provide increases in other programs, total cash financing for highway improvements under the bill would increase by only 1.4% over the base level doubled. Increased highway improvement spending would be funded almost entirely with borrowing. The only highway program receiving a significant cash funding increase under AB 40 would be routine highway maintenance performed by county highway departments, which would increase by $55 million. In balancing the transportation fund budget, the Committee will need to either lower transportation fund appropriations or take action to increase transportation fund revenues.

ALTERNATIVES

A. Funding Source for Transit

1. Approve the Governor's recommendation to provide $106,478,300 GPR in 2014-15 and make a corresponding reduction of $106,478,300 SEG in 2014-15 to reflect the conversion of the mass transit operating assistance program funding from the transportation fund to the general fund, effective July 1, 2014.

2. Delete the Governor's recommendation and instead transfer $106,478,300 in GPR revenues (on a one-time basis) to the transportation fund in 2014-15 to provide the funding needed to pay the $106,478,300 in 2014-15 transit aid from the transportation fund.

ALT A2	**Change to Bill**	
	Revenue	Funding
GPR-Transfer	$106,478,300	
SEG-REV	106,478,300	
GPR		- $106,478,300
SEG		106,478,300
Total		$0

3. Delete the Governor's recommendation.

ALT A3	**Change to Bill**
	Funding
GPR	- $106,478,300
SEG	106,478,300
Total	$0

B. Funding Level

1. Approve the Governor's recommendation to fund mass transit operating assistance at the base level of $106,478,300 annually.

2. Provide one of the following funding increases in calendar year 2014, and set the annual distribution among the tiers of systems accordingly.

	Percent Change	SEG 2013-14	2014-15*
a	2.0%	$532,400	$2,129,600
b	4.0	1,064,900	4,259,200
c	6.0	1,597,300	6,388,800
d	8.0	2,129,600	8,518,200
e	10.0	2,661,900	10,647,800
f	11.1 (Pre-Act 28)	2,957,700	11,830,900

*If the Committee adopts Alternative A1, these amounts would be GPR; under Alternative A2, these amounts would be SEG, but the GPR transfer would be increased accordingly; under Alternative A3, these amounts would be SEG.

Prepared by: Al Runde