



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #591

State and Federal Mass Transit Funding (Transportation -- Local Transportation Aid)

[LFB 2021-23 Budget Summary: Page 570, #3]

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 2021 distribution amounts are \$65,477,800 SEG for Tier A-1 systems (Milwaukee County), \$17,205,400 SEG for Tier A-2 systems (Madison), \$24,976,400 SEG for Tier B systems (systems serving a population of 50,000 or more that are not in Tiers A-1 or A-2), and \$5,292,700 SEG for Tier C systems (systems serving areas with population between 2,500 and 50,000). Mass transit aid payments are made from four sum certain, transportation fund appropriations.

DISCUSSION POINTS

1. The distribution of mass transit aid payments generally parallels federal aid categories and 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. 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. Local funds, consisting primarily of local property tax and farebox revenues, finance the remaining costs.

2. Total funding provided for mass transit operating assistance was \$118,309,200 in 2011, but was reduced by 10% to \$106,478,300 beginning in 2012. However, in 2011 the local paratransit aid program was created and provided \$2,500,000 annually to assist systems with the provision of services required under the Americans with Disabilities Act. Paratransit aid funding offset a portion

of the 2012 transit aid reduction for some of the larger transit systems that are required to provide paratransit services.

3. Although program funding is appropriated on a fiscal year basis, contracts with aid recipients are on a calendar year basis. Table 1 shows the total state operating assistance payments to aid recipients for calendar years 2011 through 2021. Base funding for the state's operating assistance program was increased by 4% in 2015 and, again, by 2% in 2020. In 2020, 75 mass transit systems received \$113.0 million in state transit aid. Approximately 96% of this aid was distributed to transit systems providing bus service, with the remainder being distributed to shared-ride only taxi systems.

TABLE 1

Urban Mass Transit Operating Assistance Payments

<u>Calendar Year</u>	<u>Amount</u>	<u>Percent Change</u>
2011	\$118,309,200	
2012	106,478,300	-10.0%
2013	106,478,300	0.0
2014	106,478,300	0.0
2015	110,737,500	4.0
2016	110,737,500	0.0
2017	110,737,500	0.0
2018	110,737,500	0.0
2019	110,737,500	0.0
2020	112,952,300	2.0
2021	112,952,300	0.0

4. Assembly Bill 68/Senate Bill 111 (AB 68/SB 111) would increase operating assistance payments to each tier of mass transit systems by 2.5% for both calendar year 2022 and calendar year 2023. Total operating assistance payments, as modified by the administration's April 23, 2021, errata to fully fund the 2.5% increase in both years, would equal \$118,670,400 in calendar year 2023 which would represent a 0.3% increase over the 2011 funding level (year prior to 2012 aid reduction) This would increase funding by \$705,900 in 2021-22 and \$3,547,300 in 2022-23 to provide a 2.5% increase in mass transit operating assistance to each tier of mass transit systems for both calendar year 2022 and calendar year 2023. Specify that the increase in funding would be distributed as follows: (a) \$409,200 in 2021-22 and \$2,056,400 in 2022-23 for Tier A-1; (b) \$107,500 in 2021-22 and \$540,300 in 2022-23 for Tier A-2; (c) \$156,100 in 2021-22 and \$784,400 in 2022-23 for Tier B transit systems; and (d) \$33,100 in 2021-22 and \$166,200 in 2022-23 for Tier C transit systems. [Alternative 1]

5. Because the quarterly transit aid payments are made in April, July, October, and December of each calendar year, only one quarter of the recommended calendar year 2023 increase

(the April payment) would be paid in 2022-23. The remaining portion of the calendar year 2023 increase would have to be funded in each year of the next biennium. This future funding commitment would total \$2,170,800 under the 2023 funding level included in AB 68/SB 111. If the increase were provided in the first year only, no future funding commitment would exist. [Alternative 2]

Supplemental Federal Transit Funding

6. Formula grant programs administered by the Federal Transit Administration use the following population groupings which roughly equates to the state tier systems as follows:

- Large urban, population greater than 200,000, "Tier A-1" (Milwaukee), "Tier A-2" (Madison), and systems within these urbanized areas; and Appleton and Green Bay area Tier B systems
- Small urban, population between 50,000 and 200,000, "Tier B systems"
- Rural, population less than 50,000, "Tier C Systems"

7. In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020, and included \$25 billion in supplemental funding for transit systems to be disbursed by the Federal Transit Administration (FTA) through apportionments to the urbanized area (section 5307) and rural formula (section 5311) programs. FTA allocated \$22.7 billion to large and small urban areas, \$2.2 billion to rural areas, and \$30 million to tribal entities. Transit systems in Wisconsin received a total of \$208.2 million in CARES Act funding.

8. Subsequent to the CARES Act, the federal Consolidated Appropriations Act of 2021 (CAA) was signed into law and makes \$14 billion available in grants to transit providers for capital and operating assistance. Urban transit allocations under the CAA are capped at 75% of reported 2018 operating expenses in combined CARES Act and CAA funding, and rural allocations under the CAA are capped at 125% of reported 2018 operating expenses in combined CARES Act and CAA funding. Those states and urbanized areas that received more CARES Act funding than their 2018 rural or urban transit operating expenses do not receive additional funding under the CAA. For example, under the rural area formula grant program for systems serving populations of less than 50,000 ("Tier C"), Wisconsin will not receive any additional funding under the CAA. In total, transit agencies and tribal governments in the state are estimated to receive \$79.6 million in additional federal transit funding under the CAA.

9. The American Rescue Plan Act (ARPA) provides a total of \$30.5 billion in emergency public transit funding, to remain available until September 30, 2024, for grants to eligible federal transit aid recipients under existing federal transit grant programs without requiring a state match. Notwithstanding existing regulations for these programs, funds are available for reimbursement of payroll costs, operating costs to maintain service due to lost revenue as a result of the coronavirus public health emergency, and paying the administrative leave of personnel due to service reductions. Urban allocations under ARPA are capped, based on how much each urbanized area reported in 2018 operating costs. ARPA limits the initial apportionment of funds so that no urbanized area receives more than 132% of its reported 2018 operating expenses in combined funding received from the Act, the CARES Act, and the CAA of 2021. In total, transit agencies and tribal governments in the state

are estimated to receive \$157.7 million in additional federal transit funding under ARPA.

10. Table 2 shows the apportionment of federal transit funding to the state from the CARES Act, CAA, and ARPA. As noted in the table, Milwaukee, Madison, Appleton and Green Bay receive aid amounts directly from FTA because of their status as large urban transit systems under the existing federal Section 5307 formula program. Funding provided through other programs listed in the table, such as 5307 Small Urban, 5311 Rural Area, Intercity Bus, and WETAP, will all pass through DOT prior to being disbursed to eligible transit systems. Table 3 shows additional detail of DOT's allocation of 5307 Small Urban funding from the three COVID relief bills.

TABLE 2

Transit Funding Allocated to Wisconsin from Federal COVID Relief Bills

<u>Program</u>	<u>Allocation</u>
CARES Act	
5307 Large Urban (Milwaukee)	\$62,363,348
5307 Large Urban (Madison)	24,498,820
5307 Large Urban (Appleton)	7,425,047
5307 Large Urban (Green Bay)	6,415,260
5307 Small Urban ("Tier B")	49,609,988
5311 Rural Area ("Tier C")	45,814,857
Tribal Transit	2,302,024
Intercity Bus	8,247,328
WETAP	<u>1,488,599</u>
Subtotal	\$208,165,231
Consolidated Appropriation Act of 2021	
5307 Large Urban (Milwaukee)	\$60,271,997
5307 Large Urban (Madison)	14,983,291
5307 Small Urban ("Tier B")	1,139,670
Tribal Transit	2,302,024
Seniors and Individuals with Disabilities	<u>884,892</u>
Subtotal	\$79,581,874
American Recovery Plan Act	
5307 Large Urban (Milwaukee)	\$93,202,863
5307 Large Urban (Madison)	30,006,405
5307 Large Urban (Appleton)	3,370,750
5307 Large Urban (Green Bay)	3,770,849
5307 Small Urban ("Tier B")	20,000,357
5311 Rural Area ("Tier C")	1,812,593
Tribal Transit	2,187,865
Seniors and Individuals with Disabilities	884,905
Intercity Bus	<u>2,503,019</u>
Subtotal	\$157,739,606
Total	\$445,486,711

TABLE 3**5307 Small Urban Transit Funding Under Federal COVID Relief Bills**

<u>Urban Area</u>	<u>CARES Act</u>	<u>CAA 2021</u>	<u>ARPA</u>	<u>Total</u>
City of Beloit	\$1,831,270		\$624,183	\$2,455,453
City of Chippewa Falls (Eau Claire UZA)	450,285			450,285
City of Eau Claire	5,223,942		2,142,744	7,366,686
City of Fond du Lac	1,699,868		451,332	2,151,200
City of Hartford (West Bend UZA)	241,179			241,179
City of Janesville	3,291,898		1,391,289	4,683,187
City of Kenosha	6,528,317		2,988,496	9,516,813
City of La Crosse	6,025,520		2,319,784	8,345,304
City of Onalaska (La Crosse UZA)	769,296			769,296
City of Oshkosh	4,553,754		1,128,184	5,681,938
City of Racine	7,839,241		3,128,816	10,968,057
City of Sheboygan	3,497,562		1,702,136	5,199,698
City of Superior (Duluth, MN UZA)	1,377,042	1,139,670	2,267,461	4,784,173
City of Wausau	3,212,991		1,135,676	4,348,667
Washington County (West Bend UZA)	2,008,161			2,008,161
City of West Bend	<u>1,059,662</u>	<u> </u>	<u>720,256</u>	<u>1,779,918</u>
Total	\$49,609,988	\$1,139,670	\$20,000,357	\$70,750,015

Post-Pandemic Transit Service and Finance

11. Public transit systems in Wisconsin, much like transit systems in rest of the country, have been, and continue to be, severely impacted by the pandemic with greatly reduced ridership and farebox revenue. According to data compiled by the American Public Transit Association, bus ridership in the U.S. was 54% lower in the fourth quarter of 2020 as compared to the prior year, and was down 46% overall in 2020. For the Milwaukee County Transit System, Wisconsin's largest system, ridership was 51% lower in the fourth quarter of 2020 as compared to a year earlier and was down 41% overall in 2020. At the same time that the pandemic dramatically reduced overall transit ridership, transit also delivered a critical service during the pandemic as essential workers relied on transit to get to employment. Therefore, transit itself provided an essential function and, although at a much reduced level of service, still delivered 4.6 billion rides (unlinked passenger trips) nationally in 2020. Nonetheless, as the impact of the economy and public transportation hesitancy due to the pandemic subsides, ridership could return to pre-pandemic levels, and continue provide needed access to employment and vital services for many.

12. However, even prior to the pandemic, transit systems in Wisconsin and throughout the country were struggling with falling ridership, lower levels of service and stagnate revenues. Nationally, ridership began to slowly decline on an annual basis starting in 2014, and in Wisconsin a

similar decline started in 2016. Although each system and city encountered its own unique set of challenges, the most commonly cited reasons for transit's ridership struggles prior to the pandemic were low gas prices which supported increased automobile use, a strong economy which supported car ownership, reduced levels of transit service, and the increasing popularity of on-demand ridesharing services such as Uber and Lyft. Post-pandemic, many of these same trends persist, and are joined by new factors such as workers having the ability to work from home and work flexible hours. Given that public transportation in the US was already facing issues in attracting riders prior to the pandemic, the post-pandemic period could bring about an urgency to recalibrating public transit goals and practices.

13. Federal aid received by transit agencies has backfilled lost revenues to maintain some basic level of reduced service during the pandemic. Eventually, transit agencies will need to balance restoring service to lure back riders with finding additional savings by adjusting transit schedules for new commuting patterns. Along these lines, major schedule and system redesign efforts are currently underway in Beloit ("Transit 2020"), Madison ("METRO Forward"), Milwaukee ("MCTS Next") and in other communities throughout the state and county. The federal aid shown in Table 2 and Table 3 essentially gives transit agencies a temporary window of time to "right-size" and restructure their operations to be more efficient for the post-COVID world.

14. The federal funding received by transit systems is one-time funding. Once these funds have been exhausted, the services that these federal aids support will either have to be financed with some combination of ongoing state, federal, local and farebox revenues, or the service itself will have to be reduced, redesigned, or eliminated. In recognition that the pandemic-related federal funding received by transit agencies is one-time financing and will eventually be exhausted, and in support of system right-sizing and redesign efforts, the Committee could choose to increase ongoing state operating assistance.

15. Some may contend that given the amount of federal aid being provided mass transit systems in the state, that state aid to mass transit systems could be reduced for the near term. None of the three federal coronavirus aid Acts passed to date include a maintenance of effort requirement on the part of the state. That is, the state could reduce the state funding provided for mass transit to reflect the federal pandemic-related transit aid that was received in 2020 and 2021. However, as mentioned, this funding is one-time in nature and was provided to assist state transit systems with the financial toll experienced in 2020 and 2021, whereas the funding provided being deliberated as part of AB 68/SB 111 would be to assist transit systems in 2022 and 2023.

16. Nonetheless, it is likely that some federal transit funding could remain through September, 2024. However, as mentioned earlier, because of the way in which calendar year mass transit operating assistance is distributed across state fiscal years, any calendar year 2022 aid reduction would affect the transit aid appropriation levels for both 2021-22 and 2022-23. Therefore, if a reduction is made to the 2022 calendar year funding level, the 2023-24 base level funding for each tier of transit systems would not be sufficient to fund the current law calendar year distributions for 2023, and thereafter. As a result, any reduction in mass transit aid in the 2021-23 biennium would need to specify that for the purposes of establishing the adjusted base for the 2023-25 biennium, the 2020-21 funding level would be used, in order to avoid having to reinstate the funding level during

2023-25 budget deliberations to fully-fund the 2023 calendar year distribution amount.

Transportation Fund Concerns

17. The state transportation fund provides funding for a variety of state operations, like Division of Motor Vehicles services and State Patrol, as well maintenance of the state's highway infrastructure. In addition, the fund provides SEG monies for the local transportation operations primarily through general transportation aids and mass transit operating assistance as well as for a variety of local infrastructure improvement programs. Several of these programs have received SEG funding increases in recent biennia. Such SEG funding from the transportation fund that is allocated or committed to local programs, especially on an ongoing basis, reduces the amount of SEG funding available to fund DOT operations and the state highway improvement program. The question then arises as to whether the state's transportation fund has the financial ability to support both local transportation assistance and state highway infrastructure. On the other hand, since the 2005(06) property tax year, the Department of Revenue (DOR) has administered a levy limit program that restricts the year-to-year increases in county and municipal property tax levies, which some contend inhibits the ability of some local governments to raise the revenue needed to maintain and rehabilitate their transportation infrastructure. As a result, state assistance for local transportation facilities and services may be warranted.

18. Under the base level funding currently included in the substitute amendment to AB 68/SB 111, expenditures from the transportation fund are significantly higher than under the Governor's recommendations. The Governor's recommendations reduced SEG funding to the state highway improvement program and replaced that funding with bonding. Further, while the 2019-21 budget increased revenues to the transportation fund, the coronavirus pandemic has dampened the impact of those revenue increases to the fund, as well as to ongoing base level revenues. The Committee already took action to reduce transportation fund appropriations, including adopting standard budget adjustments and reestimates of sum sufficient debt service appropriations that reduced appropriations by \$46.5 million in 2021-22 and \$31.4 million in 2022-23. Despite these actions and slightly higher estimated revenues, prior to Committee actions on the remainder of the transportation budget the estimated 2022-23 ending balance is -\$32.3 million. Thus, the availability of additional SEG funding for transit assistance may be limited [Alternative 3].

ALTERNATIVES

1. Provide \$705,900 in 2021-22 and \$3,547,300 in 2022-23 to provide a 2.5% increase in mass transit operating assistance to each tier of mass transit systems for both calendar year 2022 and calendar year 2023 as follows: (a) \$409,200 in 2021-22 and \$2,056,400 in 2022-23 for Tier A-1; (b) \$107,500 in 2021-22 and \$540,300 in 2022-23 for Tier A-2; (c) \$156,100 in 2021-22 and \$784,400 in 2022-23 for Tier B transit systems; and (d) \$33,100 in 2021-22 and \$166,200 in 2022-23 for Tier C transit systems. Set the statutory calendar year distribution amounts as follows; (a) \$67,114,700 for 2022 and \$68,792,600 for 2023 for Tier A-1; (b) \$17,635,500 for 2022 and \$18,076,400 for 2023 for Tier A-2; (c) \$25,600,800 for 2022 and \$26,240,800 for 2023 for Tier B; and (d) \$5,425,000 in 2022 and \$5,560,600 for 2023 for Tier C.

ALT 1	Change to Base
SEG	\$4,253,200

2. Provide \$705,900 in 2021-22 and \$2,823,700 in 2022-23 to provide a 2.5% increase in mass transit operating assistance to each tier of mass transit systems for calendar year 2022 only as follows: (a) \$409,200 in 2021-22 and \$1,636,900 in 2022-23 for Tier A-1; (b) \$107,500 in 2021-22 and \$430,100 in 2022-23 for Tier A-2; (c) \$156,100 in 2021-22 and \$624,400 in 2022-23 for Tier B transit systems; and (d) \$33,100 in 2021-22 and \$132,300 in 2022-23 for Tier C transit systems. Set the statutory calendar year distribution for 2022, and thereafter at: (a) \$67,114,700 for Tier A-1; (b) \$17,635,500 for Tier A-2; (c) \$25,600,800 for Tier B; and (d) \$5,425,000 for Tier C.

ALT 2	Change to Base
SEG	\$3,529,600

3. Take no action

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