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Joint Committee on Finance

Paper #766

Mass Transit Operating Assistance (Transportation -- Local Transportation Aids)

[LFB 2023-25 Budget Summary: Page 628, #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 2023 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, farebox collections and, for certain systems, "wheel tax" revenues, finance the remaining costs. Recipients of mass transit aid (excluding shared-ride taxicab systems) must provide a local match from nonfarebox revenue equal to 20% of state aid received.

2. 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 2014 through 2023. Base funding for the state's operating assistance

program was increased by 4% in 2015, and by 2% in 2020. In 2022, there was a one-time 50% cut in operating assistance for both the Milwaukee County and City of Madison transit systems, as specified in 2021 Act 58 (2021-23 biennial budget act). Act 58 fully restored the 2022 funding cut for Milwaukee and Madison in 2023 and thereafter.

TABLE 1

Urban Mass Transit Operating Assistance Payments

<u>Calendar Year</u>	<u>Amount</u>	<u>Percent Change</u>
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
2022	71,610,700	-36.6
2023	112,952,300	57.7
2014-2023 Growth		6.1%
Annual Avg. Growth		0.7%

3. Table 2 shows the distribution of funding sources for transit systems on a statewide basis over the past 10 years. Funding for mass transit is provided through federal and state aid, local revenues, and farebox revenue. Funding amounts in Table 2 are shown on a calendar-year basis and reflect statewide averages. The funding mix for individual systems may vary significantly from these averages. Excluding the most recent three years of data which are heavily impacted by one-time federal aid increases and a one-time state aid decrease, the state aid percentage of total transit operating expenses has fallen from its 10-year high of 35% in 2013 to 31.8% in 2019.

TABLE 2

Transit System Operating Expenses and Funding Sources (in Millions)

Calendar Year	Total Operating Expenses	External Funding				Local Funding			
		Federal	%	State	%	Local*	%	Farebox Revenue	%
2013	\$304.8	\$57.6	18.9%	\$106.5	35.0%	\$56.8	18.6%	\$83.9	27.5%
2014	310.7	59.6	19.2	106.5	34.3	59.1	19.0	85.5	27.5
2015	326.7	60.4	18.5	110.7	33.9	65.7	20.1	89.9	27.5
2016	339.3	61.2	18.0	110.7	32.7	66.9	19.7	100.5	29.6
2017	325.8	61.1	18.8	110.7	34.0	58.4	17.9	95.5	29.3
2018	347.2	63.0	18.1	110.7	31.9	56.8	16.4	116.7	33.6
2019	348.1	64.6	18.6	110.7	31.8	56.2	16.1	116.6	33.5
2020	338.0	65.3	19.3	113.0	33.4	80.5	23.8	79.2	23.4
2021	333.2	78.1	23.5	113.0	33.9	73.1	21.9	69.0	20.7
2022	324.1	89.8	27.7	71.6	22.1	100.0	30.9	62.7	19.3

*Primarily property tax revenue.

4. Operating expenses for public transit systems typically increase over time due to higher labor, fuel, insurance, and maintenance costs. From 2013 to 2019, just prior to the pandemic, Table 2 shows that transit system operating expenses increased from \$304.8 million to \$348.1 million, or 14.2% (2.2% avg. annual growth) for all transit systems in the state. By funding tier, the costs of providing transit services during this same period increased 18.4% (2.9% avg. annual growth) for Tier A-1; 1.0% (0.2% avg. annual growth) for Tier A-2; 10.1% (1.6% avg. annual growth) for Tier B; and 29.9% (4.5% avg. annual growth) for Tier C.

5. Larger transit systems are often forced to cut service if they are unable to provide local funds to make up for the higher costs of providing existing service and changes in state and federal aid. Consequently, Madison Metro's minimal increase in operating expenses during the 2013-2019 period may be more reflective of funding constraints than service need. Additionally, from 2013 to 2019, rural public transit systems (Tier C) have seen increased demand for service which, combined with inflation, has resulted in a 29.9% increase in expenses. Despite overall population decline in rural Wisconsin counties since 2013, transit service has been added to meet increased demand as the population that remains in rural areas of the state is older and less mobile.

6. More recently, although total operating costs have decreased since 2019 due to pandemic-related service reductions, the cost to deliver the same amount of transit service that existed prior to the pandemic has continued to increase due to the effects of high inflation, fuel prices, driver shortages, and supply chain issues. In a July, 2022, survey of 190 transit systems, the American Public Transit Association (APTA) found that 96% of agencies surveyed reported experiencing a workforce shortage, 84% of which said the shortage affects their ability to provide service. Exacerbating the transit worker shortage is U.S. Department of Transportation data showing that 43% of transit workers are over 55 years old, as compared to only 24% for the broader transportation sector. Diesel fuel prices have also increased substantially in recent years. The Midwest average sales price for diesel fuel increased 73% from \$2.95/gallon in the second half of 2019, to \$5.10/gallon in the second

half of 2022. Although larger systems operate fuel price hedging programs, such as Milwaukee County Transit Services which has had a program since 2006 and purchases 3.5 million gallons of diesel fuel per year, the majority of transit providers in the state directly absorb these increased prices.

7. Labor shortages and price inflation are impacting transit systems at the same time as farebox revenues struggle to recover from pandemic-induced ridership drop. According to data compiled by the Federal Transit Administration (FTA), public transit ridership in the U.S. in the fourth quarter of 2022 was 66% of fourth quarter ridership in 2019, just prior to the pandemic. For the Milwaukee County Transit System, Wisconsin's largest system, transit ridership in the fourth quarter of 2022 was 64% of fourth quarter ridership in 2019. For Wisconsin's nine largest transit systems combined, transit ridership in the fourth quarter of 2022 was 66% of fourth quarter ridership in 2019. Although ridership levels are slowly recovering from the COVID-19 pandemic, it's unclear how long ridership will remain depressed.

8. Federal aid received by transit agencies temporarily backfilled lost revenues to maintain reduced service levels during the pandemic. In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Consolidated Appropriations Act of 2021 (CAA), and the American Rescue Plan Act (ARPA) included approximately \$70 billion in supplemental funding for transit systems to be disbursed by the FTA for grants to eligible federal transit aid recipients under existing federal transit grant programs without requiring a state match. Transit systems in Wisconsin received a total of \$470.5 million in supplemental funding from these acts. This total includes the \$25 million in federal discretionary funding provided by the Governor from the State Fiscal Recovery Funds under ARPA to Milwaukee County (\$19,797,794) and City of Madison (\$5,202,206). The grants were made subsequent to the one-time \$41.3 million state-aid funding reduction for Milwaukee and Madison, as specified in 2021 Act 58. ARPA transit funding remain available until September 30, 2024. CARES Act and CAA funding is available until spent.

9. 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. According to DOT, of the roughly \$54 million of CARES Act funds received by Wisconsin for Tier C rural transit systems, approximately \$375,000 remains uncommitted. DOT expects Tier C systems will fully expend the balance of CARES Act dollars in calendar year 2023. Also, the Department states that of the roughly \$1.8 million of ARPA funds for Tier C rural public transit systems, the full amount currently remains but is expected to be fully expended in calendar year 2023.

10. Milwaukee, Madison, Appleton, and Green Bay systems receive federal transit aid directly from FTA because of their status as large urban transit systems under the existing federal formula program. According to a report from the Milwaukee County Comptroller, the Milwaukee County Transit System plans to use the system's remaining \$20.8 million in federal COVID-relief to fill the 2024 budget gap, leaving an estimated \$25 million structural budget gap for 2025. The City of Madison expects Metro Transit to expend all remaining federal COVID-relief funds by the end of calendar year 2023. The City of Green Bay expended all COVID-relief funds prior to 2023, and the City of Appleton reports that it has allocated all remaining COVID-relief funds in 2023.

11. Federal employment estimates for the month of April 2023, show that Wisconsin's seasonally adjusted unemployment rate has fallen to a record low of 2.4%. The report also shows that the total seasonally adjusted nonfarm jobs increased in the state to 3,003,600, or 9,600 jobs above the state's pre-COVID-19 peak in January 2020. With total employment exceeding pre-pandemic levels, and unemployment at record lows, employers continue to find it difficult to find workers. A 2023 survey of member employers from the Wisconsin Manufacturers and Commerce, found that 85% are having trouble hiring employees. Connecting employers and workers is a critical function of mass transit. According to the most recent statewide transit passenger survey from 2015, 55% of public transit trips were for the purposes of getting to or from work, 14% of trips were for education, 20% for shopping or recreation, and 11% for healthcare. A historically tight labor market and the reliance of many state residents on transit to connect them to work, could be an argument for increased state transit operating assistance.

12. Assembly Bill 43/Senate Bill 70 (AB 43/SB 70) would increase operating assistance payments to each tier of mass transit systems by 4.0% for both calendar year 2024 and calendar year 2025. AB 43/SB 70 would set the statutory calendar year distribution amounts as follows; (a) \$68,096,900 for 2024 and \$70,820,800 for 2025 for Tier A-1; (b) \$17,893,600 for 2024 and \$18,609,400 for 2025 for Tier A-2. While the funding provided in AB 43/SB 70 for 2023-24 and 2024-25 would fully fund a 4.0% increase for calendar year 2024 and 2025, no increase in the statutory calendar year amounts for Tier B or Tier C were specified in the bill. A 4.0% funding increase, as provided under AB 43/SB 70, would require the statutory calendar year distribution amounts to be specified as follows: (a) \$25,975,500 for 2024 and \$27,014,500 for 2025 for Tier B; and (b) \$5,504,400 in 2024 and \$5,724,600 for 2025 for Tier C.

13. 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. Considering ridership levels, and corresponding farebox revenues, that have yet to recover to pre-pandemic levels, additional state funding for public transit operating assistance may be needed. In recognition that the pandemic-related federal funding received by transit agencies is one-time financing, the recommended increase to state operating assistance could be provided. [Alternative 1]

14. Because the quarterly transit aid payments are made in April, July, October, and December of each calendar year, only one quarter of the calendar year 2025 increase (the April payment), as provided under AB 43/SB 70, would be paid in 2024-25. The remaining portion of the calendar year 2025 increase would have to be funded in each year of the next biennium. This future funding commitment would total \$3,524,000 under the 2025 funding level included in AB 43/SB 70. This future commitment could be avoided if any funding increase that the committee chooses be provided in 2024, with no additional increase in 2025. [Alternative 2a, 2b, or 2c]

15. Compared to AB 43/SB 70, net revenues to the transportation fund in the biennium are estimated to be lower by \$126.6 million in 2023-24 and \$258.2 million in 2024-25. However, net current law revenues, exclusive of the proposed additional general fund transfers to the transportation fund under AB 43/SB 70, are estimated to be lower by only \$43.7 million in 2023-24 and \$64.9

million in 2024-25. Incorporating these revenue reestimates, and the Committee's action to date, results in a projected \$28.1 million, June 30, 2025, transportation fund balance before the Committee begins actions to complete the 2023-25 transportation budget. Meanwhile, demands for the expenditure of transportation fund revenues may increase in 2023-25 and beyond due to large upcoming projects such as the I-94 East-West reconstruction project in Milwaukee County and the reconstruction of the John A. Blatnik Bridge in Superior, as well as inflationary demands across transportation programs.

16. AB 43/SB 70 would also provide increases in mostly unrestricted aid in the form of general transportation aid from the transportation fund, as well as a significant increase in county and municipal aid from the general fund. Whether or not the state should commit additional transportation fund resources for transit aids, while also providing these other resources, is a significant policy question associated with the Governor's recommendations. [Alternative 3]

ALTERNATIVES

1. Provide \$1,129,600 in 2023-24 and \$5,693,000 in 2024-25 to provide a 4.0% increase in mass transit operating assistance to each tier of mass transit systems for both calendar year 2024 and calendar year 2025 as follows: (a) \$654,800 in 2023-24 and \$3,300,100 in 2024-25 for Tier A-1; (b) \$172,100 in 2023-24 and \$867,200 in 2024-25 for Tier A-2; (c) \$249,800 in 2023-24 and \$1,258,900 in 2024-25 for Tier B transit systems; and (d) \$52,900 in 2023-24 and \$266,800 in 2024-25 for Tier C transit systems.

Set the statutory calendar year distribution amounts as follows: (a) \$68,096,900 for 2024 and \$70,820,800 for 2025 for Tier A-1; (b) \$17,893,600 for 2024 and \$18,609,400 for 2025 for Tier A-2; (c) \$25,975,500 for 2024 and \$27,014,500 for 2025 for Tier B; and (b) \$5,504,400 in 2024 and \$5,724,600 for 2025 for Tier C.

ALT 1	Change to Base
SEG	\$6,822,600

2. Provide one of the following SEG funding increases in calendar year 2024, and set the annual distribution for 2024 and thereafter among the tiers of transit systems accordingly.

Percent Change	SEG Change to Base		
	2023-24	2024-25	Total
a. 2.0%	\$564,800	\$2,259,100	\$2,823,900
b. 4.0	1,129,600	4,518,100	5,647,700
c. 6.0	1,694,400	6,777,200	8,471,600

3. Take no action. Each transit funding tier would continue to receive the same level of state funding as provided to each tier in calendar year 2020.

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