



## Legislative Fiscal Bureau

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May 29, 2001

Joint Committee on Finance

Paper #908

### **Supplemental Mass Transit Aids (Transportation -- Local Transportation Aids)**

[LFB 2001-03 Budget Summary: Page 655, #5]

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#### **CURRENT LAW**

Basic mass transit aid payments are made from sum certain, transportation fund appropriations. For Tier A-1 and Tier A-2 systems, each system is provided a specified amount of funding for a calendar year. For Tier B and Tier C systems, 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. A 20% local match of the state aid amount from non-farebox revenues is required from municipalities served by bus systems. Beginning in calendar year 2000, DOT may not enter into a mass transit aid contract for any system, unless the contract requires the system to comply with cost-efficiency standards promulgated by the Department as a condition of receiving aid.

#### **GOVERNOR**

Provide \$3,237,500 SEG in 2002-03 to provide supplemental mass transit aid amounts to transit system applicants that meet specified annual cost requirements. Create four continuing appropriations for the purpose of providing supplemental mass transit aid to eligible applicants within the following four types of systems: \$2,361,900 for Tier A-1 and Tier A-2 systems, \$689,400 for Tier B bus systems, \$68,300 for Tier C bus systems and \$117,900 for applicants served exclusively by a shared-ride taxi system. Specify that the supplemental payments would not be subject to the 20% local match currently required of all transit systems, excluding shared-ride taxi systems, that receive basic mass transit operating assistance payments.

Require DOT to make supplemental payments of mass transit aid from the new appropriations in calendar year 2003 and each calendar year thereafter. Specify that the

payments be made to each eligible applicant for whom the percentage increase in the average cost per one-way passenger trip taken on the eligible applicant's system in the preceding calendar year did not exceed the percentage increase in the U.S. Consumer Price Index reported for the 12-month period ending on December 31 of that calendar year. Require DOT, for the purpose of providing supplemental aids, to determine the average cost per one-way passenger trip for an eligible applicant by dividing the total operating expenses of the eligible applicant's urban mass transit system for a calendar year by the total number of one-way passenger trips taken on that system during that calendar year. Allow DOT to use reasonable estimates of operating expenses or one-way trips for new or expanded services if the actual operating expenses or number of one-way trips of the new or expanded services are not known.

For aid payments from the supplemental aid appropriations for Tier A-1 and Tier A-2 systems and shared-ride taxi systems, specify that if all the applicants are eligible to receive supplemental aid payments in a calendar year, DOT would be required to distribute funds in proportion to the number of one-way passenger trips taken on each applicant's transit system during the preceding calendar year. For aid payments from the supplemental aid appropriations for Tier B and Tier C bus systems, specify that if two or more applicants are eligible to receive supplemental aid payments in a calendar year, DOT would be required to distribute funds in proportion to the number of one-way passenger trips taken on each eligible applicant's transit system during the preceding calendar year.

Require DOT to promulgate rules to implement and administer the payment of supplemental mass transit aids, including a rule defining a one-way passenger trip. Specify that the provisions related to this program would first take effect on January 1, 2002, although the first payment would be made in 2003.

## **DISCUSSION POINTS**

1. The bill would make supplemental transit aid funding available to each tier of bus systems and to the shared-ride taxi systems in the state. However, only those systems for whom the percentage increase in the average cost per one-way passenger trip taken on the applicant's system in the preceding calendar year did not exceed the percentage increase in the U.S. Consumer Price Index reported for the prior year would receive the funding.

2. Administration officials maintain that while transit services in the state are generally provided on an efficient basis, room for improvement exists. The Executive Budget Book indicates that the supplemental transit aids initiative would assure that transit systems are rewarded for implementing and maintaining operating efficiencies.

3. Unlike the other primary transportation aid programs, the Governor's recommendation would not provide an additional increase in basic mass transit aid in the second year of the 2001-03 biennium. The \$3,237,500 in 2002-03 in funding provided for the proposed supplemental transit aids program would equal 3.4% of the amount established under the bill for

basic mass transit operating assistance for calendar year 2001 and thereafter. If the Committee does not approve the creation of a supplemental transit aids program, the funds provided for the program could be used to fund second year increases under the basic mass transit aid program.

4. According to a December, 1999, transit system performance report conducted by the state Department of Transportation, Wisconsin transit systems outperformed their similar-sized, peer systems throughout the United States. The study reviewed various operating performance measures for the state's systems and their peer systems across the country, such as expense per passenger, expense per hour, passengers per capita and revenue hours per capita. According to the study, during the period from 1993 through 1997, Wisconsin transit systems maintained or improved performance in over half of the operating characteristics analyzed. By comparison, the peer transit systems in other states experienced declines in almost three-quarters of the operating performance measures during the same period.

5. Increases in total eligible transit costs for state aid purposes in recent years are comparable to increases in eligible costs for general transportation aid purposes. For the period from 1990 through 1999, the average, annual increase in eligible costs was 4.9% for all transit aid recipients and 4.6% for all general transportation aid recipients. Further, the increase in total, eligible transit aid costs during the period includes an increase in the number of transit systems receiving mass transit aids. The number of transit systems receiving aid increased from 49 in 1990 to 69 in 1999.

6. The 1999-01 biennial budget act specified that DOT may not enter into a mass transit aid contract for any system for calendar year 2000 and thereafter unless the Department has promulgated the administrative rules for cost-efficiency standards and the contract satisfies the requirements related to these standards.

7. DOT promulgated a rule that states that, as a condition of receiving state aids, a system must establish system-wide annual service and performance goals for the following performance indicators: (a) the ratio of passengers to service area population; (b) the ratio of operating expenses to passengers; (c) the ratio of operating expenses to revenue hours; (d) the ratio of revenues to operating expenses; (e) the ratio of passengers to revenue hours; and (f) the ratio of revenue hours to service area population. Under the rule, DOT is required to annually assess each system against these six performance indicators and against peer groups of systems nationwide. Standards are set for each tier using a standard deviation. Systems that are within one standard deviation of the mean are judged to be in compliance with the standard for that measure. Systems that are in compliance with four out of six of the performance standards are in compliance with the cost efficiency standards. DOT transit program officials indicate that a preliminary review, done at the time the rule on the standards was being promulgated, found that some systems would not have been in compliance with the standards if the rule had been in effect at that time.

8. If a system does not meet the cost efficiency standards, two additional assessments are completed: (a) an analysis of the six performance measures over a five-year period is conducted, with the system being in compliance if it shows improvement in four out of the six performance

measures; and (b) an assessment of the most recent management performance audit on the system is made and if significant progress in implementing a majority of audit recommendations targeted at improving efficiency has been made, the system would be considered in compliance with the cost efficiency standards. After these additional assessments are completed, any system that is still deemed to be in noncompliance with the cost efficiency standards is given three years to comply with the standards for each measure before being assessed a revenue penalty. After three years of noncompliance, a penalty equal to 10% of the system's state aid is imposed. The penalty remains in effect until the system comes into compliance.

9. Transit officials contend that the supplemental transit aid program proposed by the Governor, by focusing on the average cost per passenger, runs counter to other state and federal program efforts that have increased the state's transit systems' costs per rider. For example, the proposed formula does not take into account the level of "para-transit" services that transit systems are required to provide for paralyzed or otherwise disabled citizens. For many transit systems in the state, the level of these "para-transit" services and costs of providing the services are growing at a significantly higher rate than basic ridership services and costs. In public testimony before the Joint Committee on Finance, the Wisconsin Urban and Rural Transit Association and transit managers indicated that state transit systems' para-transit costs have increased by 500% over the last five years. One system manager (Green Bay) indicates that para-transit services make up 20% of the system's annual operating costs. Another system (Wausau) projects that their cost per para-transit trip will increase by 13% in 2001. In addition, despite the higher cost of this service, under federal law, systems are limited in what they are allowed to charge for the service.

10. In recent years, mass transit has also been seen as a means to assist state and federal welfare reform and access to jobs efforts. Transit officials contend that while providing transit services to assist in these program efforts is a worthy policy, such transit service is often more expensive on a per rider basis than the basic transit service provided by the state's systems. The federal job access and reverse commute program, in conjunction with the state's Wisconsin employment transportation assistance program (WETAP), has made funding available on a project basis to assist transit systems in increasing services that provide low-income individuals in need of work with access to places of employment. Projects eligible for funding include expanded service hours and routes to accommodate shift and weekend workers and workers with non-traditional working hours. When the project funding expires, if the service is continued, the system's eligible costs increase, which could also lead to an above-inflation increase in average cost per passenger and make systems providing this service ineligible for the proposed supplemental transit aid.

11. Transit services that meet the policy goal of linking potential workers with access to places of employment often have a higher cost per rider than the cost per rider for the systems' peak service routes and hours. For example, one system (Janesville) indicates that, although adding night shift transit service to a local factory has been successful in linking employees to that place of employment, the number of riders per hour of service associated with that service is only one-third of hourly ridership for the non-night shift service. As a result, while the added service may be successful in getting workers to their jobs, the cost per rider associated with providing the added night shift service is greater than the costs associated with basic ridership services.

12. Although the Consumer Price Index is widely used as a measure of inflation, by its nature it reflects a broader set of goods and services than those that are used to provide transit service. Mismatches between the two sets of goods and services (such as a different relative importance of fuel prices) could lead to the CPI either overstating or understating the actual inflation experienced by transit systems.

13. Since the state already has adopted rules related to cost efficiency of transit systems that interlink with the receipt of basic mass transit aid, it could be argued that creating another efficiency measure linked to another aid program is duplicative. If the Committee decides to delete the proposed supplemental aid program, DOT could still submit modifications to the current cost efficiency rules to accomplish any additional efficiency standards that the administration deems to be important.

### **Local Share of Transit Services**

14. One alternative to creating a supplemental transit aid program would be to increase the local match required to receive state transit aid. If the Legislature is concerned that transit costs are increasing too rapidly or that operating efficiency could be increased, an increase in the required local match may subject cost decisions relative to transit service levels to greater local scrutiny.

15. Current law requires a 20% local match, from non-farebox revenues, of state aid from municipalities served by bus systems. The current 20% local match for bus systems was approved in 1989 in order to give local governments an incentive to operate systems efficiently and to ensure a local commitment to mass transit. Administrative rules specify that state aid contracts may be terminated if the local match is not provided. State aid to these systems is limited to five times the local match funding. Shared-ride taxi systems are not required to provide a local match to receive state aid.

16. Attachment 1 indicates the amount of additional funding that local governments would have had to provide, compared to the amounts actually provided in calendar year 2001, at a 20% required local match for shared-ride taxi systems. As the attachment shows, many shared-ride taxi systems currently provide no local share or only a small local share, relative to the state aid received. Instituting a local match requirement for these systems could reduce fares, since the local government would now be subsidizing the service to a greater extent. However, some communities may decide to drop this service rather than provide a greater local share.

17. Attachment 2 indicates the amount of additional funding that local governments would have to provide, compared to the amounts actually provided in calendar year 2001, for various required local match percentages for all transit systems. The attachment shows that many bus systems already provide a local share of revenue that exceeds the minimum 20% by a considerable amount, with 21 systems already exceeding a 50% match. These systems would not be immediately affected by the higher match requirements, although future changes in service levels, fares and state and federal aid could change this relationship. Other bus systems would be forced to commit additional local funds immediately at one or more of the increased match

percentages.

18. Under the mass transit aid formula, after all the state aid is expended and the federal aid is allocated, any remaining costs are either funded from farebox revenue or local funds, which are primarily property taxes. Mandating that local communities use additional local funds to assist transit reduces their flexibility to choose between fare increases or dedicating additional local revenues to fund a larger portion of annual transit operating costs not funded from state or federal aid.

19. Conversely, allowing local governments the flexibility to determine where the local funds will come from could result in a local government choosing to fund the entire local share from farebox revenues. Arguably, transit service benefits the general public by getting people to and from places of employment or consumers to places of business. Therefore, it could be argued that local taxpayers should be required to cover some of the costs of the service.

### **ALTERNATIVES TO BILL**

1. Approve the Governor's recommendation to provide \$3,237,500 SEG in 2002-03 to provide supplemental mass transit aid amounts to transit system applicants that meet specified annual cost requirements. Create four continuing appropriations for the purpose of providing supplemental mass transit aid to eligible applicants within the following four types of systems: \$2,361,900 for Tier A-1 and Tier A-2 systems, \$689,400 for Tier B bus systems, \$68,300 for Tier C bus systems and \$117,900 for applicants served exclusively by a shared-ride taxi system. Specify that the supplemental payments would not be subject to the 20% local match currently required of all transit systems, excluding shared-ride taxi systems, that receive basic mass transit operating assistance payments.

2. Delete the Governor's recommendation and require the following local match as a percentage of state aid as a condition of receiving state mass transit aid, effective with contracts for calendar year 2002.

#### Shared-Ride Taxi Systems

- a. 20%
- b. 30%
- c. 40%
- d. 50%

#### Bus Systems

- e. 30%
- f. 40%
- g. 50%

<b>Alternative 2</b>	<b>SEG</b>
<b>2001-03 FUNDING</b> (Change to Bill)	- \$3,237,500

3. Maintain current law. No supplemental transit program would be created.

<b>Alternative 3</b>	<b>SEG</b>
<b>2001-03 FUNDING</b> (Change to Bill)	- \$3,237,500

Prepared by: Al Runde

## ATTACHMENT 1

### Funding Required Under a 20% Required Local Match for Shared-Ride Taxi Systems (Compared to 2001 Contract Amounts)

<u>System</u>	<u>Current Local Share</u>	<u>Local Share as % of State Aid</u>	<u>Additional Local Share</u>
Baraboo	\$0	0.0%	\$21,505
Beaver Dam	9,447	4.2	35,999
Berlin	13,647	23.4	0
Black River Falls	2,838	3.2	14,756
Chippewa Falls	30,242	26.4	0
Clintonville	12,576	33.4	0
Edgerton	12,882	41.1	0
Fort Atkinson	13,652	13.9	6,023
Grant County	6,941	44.2	0
Hartford	11,879	25.7	0
Jefferson	10,768	21.8	0
Lake Mills	7,851	30.2	0
Marinette	22,545	25.1	0
Marshfield	0	0.0	30,218
Mauston	0	0.0	11,444
Medford	16,083	43.8	0
Monroe	0	0.0	19,019
Neillsville	20,033	46.5	0
New Richmond	22,323	61.1	0
Onalaska	35,472	48.2	0
Ozaukee County	123,903	38.5	0
Platteville	1,109	2.7	7,014
Plover	8,921	20.1	0
Portage	0	0.0	55,628
Port Washington	11,586	22.3	0
Prairie du Chien	0	0.0	11,930
Prairie du Sac	35,219	85.3	0
Reedsburg	0	0.0	15,567
Rhineland	0	0.0	27,146
River Falls	25,869	37.7	0
Shawano	0	0.0	11,276
Stoughton	4,358	5.8	10,617
Sun Prairie	10,531	8.3	14,713
Viroqua	0	0.0	10,879
Waterloo-Marshall	10,303	51.9	0
Watertown	0	0.0	43,452
Waupaca	5,108	6.6	10,369
West Bend	48,611	18.9	2,944
Whitewater	16,504	28.8	0
Wisconsin Rapids	15,296	6.3	33,034



## ATTACHMENT 2

### Funding Required under Various Required Local Match Percentages (Compared to 2001 Contract Amounts)

System	Current Local Share	Local Share as % of State Aid	Additional Local Share at:		
			30%	40%	50%
<b>Tier A-1</b>					
Milwaukee County	\$20,112,513	37.6%	\$0	\$1,309,687	\$6,665,287
<b>Tier A-2</b>					
Madison	\$13,913,788	97.3%	\$0	\$0	\$0
<b>Tier B</b>					
Appleton	\$1,334,028	68.3%	\$0	\$0	\$0
Beloit	332,512	67.3	0	0	0
Chippewa Falls	30,242	26.4	4,178	15,651	27,124
Eau Claire	629,244	56.3	0	0	0
Green Bay	1,298,180	55.3	0	0	0
Janesville	388,923	51.9	0	0	0
Kenosha	910,032	49.4	0	0	11,243
La Crosse	381,220	30.7	0	115,237	239,351
Monona	57,353	44.1	0	0	7,712
Onalaska	35,472	48.2	0	0	1,342
Oshkosh	692,009	62.2	0	0	0
Ozaukee County	175,916	83.5	0	0	0
Racine	937,931	44.4	0	0	117,883
Racine-Commuter*	63,951	12.8	86,327	136,420	186,512
Sheboygan	563,146	48.0	0	0	23,067
Superior	243,247	73.5	0	0	0
Washington County	114,808	53.6	0	0	0
Waukesha County	352,311	22.7	112,677	267,674	422,670
Waukesha City	1,036,309	66.4	0	0	0
Wausau	623,033	63.8	0	0	0
<b>Tier C -- Bus</b>					
Bay Area Rural	\$46,733	67.8%	\$0	\$0	\$0
Fond du Lac	310,561	56.7	0	0	0
Ladysmith	54,349	64.5	0	0	0
Manitowoc	301,586	71.9	0	0	0
Merrill	51,552	39.4	0	849	13,949
Rice Lake	71,336	79.9	0	0	0
Stevens Point	211,186	67.6	0	0	0

\*DOT indicates that it will be auditing the Racine-Commuter system to determine whether the system will meet the required state share in 2001.

**ATTACHMENT 2 (continued)**

System	Current Local Share	Local Share as % of State Aid	Additional Local Share at:		
			30%	40%	50%
<b>Tier C - Shared Ride Taxi</b>					
Baraboo	\$0	0.0%	\$32,258	\$43,011	\$53,763
Beaver Dam	9,447	4.2	58,722	81,445	104,167
Berlin	13,647	23.4	3,870	9,709	15,548
Black River Falls	2,838	3.2	23,553	32,350	41,148
Clintonville	12,576	33.4	0	2,473	6,236
Edgerton	12,882	41.1	0	0	2,796
Fort Atkinson	13,652	13.9	15,860	25,698	35,535
Grant County	6,941	44.2	0	0	903
Hartford	11,879	25.7	2,013	6,643	11,274
Jefferson	10,768	21.8	4,048	8,987	13,926
Lake Mills	7,851	30.2	0	2,546	5,145
Marinette	22,545	25.1	4,384	13,360	22,336
Marshfield	0	0.0	45,327	60,436	75,545
Mauston	0	0.0	17,166	22,889	28,611
Medford	16,083	43.8	0	0	2,281
Monroe	0	0.0	28,528	38,038	47,547
Neillsville	20,033	46.5	0	0	1,495
New Richmond	22,323	61.1	0	0	0
Ozaukee Co.	123,903	38.5	0	4,701	36,851
Platteville	1,109	2.7	11,076	15,138	19,199
Plover	8,921	20.1	4,425	8,873	13,322
Port Washington	11,586	22.3	3,973	9,159	14,345
Portage	0	0.0	83,441	111,255	139,069
Prairie du Chien	0	0.0	17,895	23,860	29,825
Prairie du Sac	35,219	85.3	0	0	0
Reedsburg	0	0.0	23,351	31,134	38,918
Rhineland	0	0.0	40,720	54,293	67,866
Ripon	30,501	31.2	0	8,545	18,307
River Falls	25,869	37.7	0	1,568	8,427
Shawano	0	0.0	16,915	22,553	28,192
Stoughton	4,358	5.8	18,105	25,592	33,080
Sun Prairie	10,531	8.3	27,335	39,957	52,580
Viroqua	0	0.0	16,318	21,758	27,197
Waterloo-Marshall	10,303	51.9	0	0	0
Watertown	0	0.0	65,179	86,905	108,631
Waupaca	5,108	6.6	18,107	25,846	33,584
West Bend	48,611	18.9	28,721	54,499	80,276
Whitewater	16,504	28.8	688	6,419	12,149
Wisconsin Rapids	15,296	6.3	57,199	81,364	105,529