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Joint Committee on Finance

Paper #592

Transit Capital Assistance Grants (Transportation -- Local Transportation Aid)

[LFB 2021-23 Budget Summary: Page 570, #4]

CURRENT LAW

Under current law, Wisconsin does not have a dedicated state-funded program to assist transit systems in capital purchases. Since 2018, the Department of Administration has awarded transit capital assistance grants from the state's Volkswagen Environmental Mitigation Trust monies. State transit systems also receive federal funds for the purposes of replacing transit vehicles and transit facilities. Currently, the state's larger transit systems (population over 200,000) directly receive federal formula funding for capital purchases and certain ongoing capitalized maintenance expenses. Smaller transit systems in the state (population of 50,000 to 199,999) receive federal funds for capital projects that are distributed based on a priority system determined by DOT.

DISCUSSION POINTS

1. According to DOT, based on capital requests submitted to the Department for the 2019 funding cycle, statewide transit capital needs for equipment and facility projects are approximately \$60.2 million. Looking beyond a single application cycle, DOT estimates that the total transit capital funding shortfall over the three-year period between 2019 and 2021 to be \$90.8 million, assuming the receipt of approximately \$46.9 million in federal funding for capital needs during the three-year period.

2. Federal discretionary funding is also available for transit capital purchases. From 2016 to 2018, DOT and individual transit systems applied for an average \$55.3 million annually in capital grants. The Federal Transit Administration (FTA) awarded Wisconsin an average of \$8.9 million annually during this three-year period, or 16.1% of the requested amount.

3. Currently, Wisconsin does not have an ongoing transit capital assistance program with a dedicated source of state funding. The state Transportation Finance and Policy Commission, established by 2011 Wisconsin Act 32, recommended the creation of a state transit capital assistance program in their final report. In 2013, the Commission found that an adequate and consistent funding source is needed to regularly replace transit vehicles, update transit facilities and allow for some system expansion. The Commission's recommendation for the creation of a transit capital program at a funding level of \$15.0 million annually was included in DOT's 2015-17 agency budget request, but was not included in the then Governor's budget recommendation. Assembly Bill 68/Senate Bill 111 (AB 68/SB 111) would provide funding of \$10,000,000 SEG annually to fund a newly created transit capital assistance grant program administered by DOT.

4. The Department of Administration (DOA) currently administers a transit capital assistance grant program to fund the replacement of eligible public transit buses under the Volkswagen Environmental Mitigation Trust. As a designated beneficiary of the trust, the State of Wisconsin will receive \$67.1 million in settlement funds. The transit capital grant program funds the replacement and scrapping of 1992-2009 engine model year class 4-8 public transit buses with new replacement diesel or alternate fueled buses. The program gives preference to communities or routes that DOA determines are critical for connecting employees with employers. The program has competitively awarded \$50.2 million of Volkswagen Trust funds to 11 transit systems to replace 92 eligible public transit vehicles.

5. The Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Consolidated Appropriations Act of 2021 (CAA), and the American Rescue Plan Act (ARPA), together provide a total of \$424.7 million for grants to eligible transit aid recipients under existing federal transit grant programs (5307 large urban, 5307 small urban, and 5311 rural area) without requiring a state match. Funds are to be directed for reimbursement of payroll costs, operating costs to maintain service due to lost revenue as a result of the pandemic, and paying the administrative leave of personnel due to service reductions, unless the recipient certifies to the FTA Administrator that the recipient has not furloughed any employees. FTA states that while the primary goal of CARES ACT, CAA and ARPA grant funds made available under 5307 and 5311 are to supplement the operating costs of transit systems, funds are also eligible for capital projects, planning, and activities that a system could normally fund under the urbanized and rural area programs. Accordingly, there is no limit on the amount of federal COVID relief funding that can be used for operating expenses or other types of activities such as capital. ARPA funds are available to transit systems until September 30, 2024. CARES Act and CAA funds are available until expended.

6. The federal COVID relief funding received by transit systems is one-time funding. Once these funds have been exhausted, future, ongoing transit capital needs will either have to be financed with some combination of ongoing state, federal, local and farebox revenues, or needed capital investment will again decline. In recognition that the pandemic-related federal funding received by transit agencies is one-time financing and will eventually be exhausted, the Committee could choose to establish an ongoing state transit capital program funded at \$10.0 million annually to meet the need of the state's transit systems. [Alternative 1]

7. Alternatively, given that federal aid is currently available, and the state's Volkswagen transit capital assistance grant program, the Committee could provide \$10.0 million in 2022-23,

instead of both years of the biennium. This would provide some funding, for what the Department and transit officials in the past have identified as an ongoing need long-term need in order to maintain transit systems' viability. This alternative would also establish ongoing base level funding for a transit capital program. [Alternative 2]

8. Under AB 68/SB 111, DOT's transit capital assistance grant program would use the same definition of "public transit vehicle" as currently in use by DOA for the administration of the Volkswagen transit capital assistance grant program. Therefore, under the bill, the DOT and DOA transit capital programs would only be permitted to grant awards to transit systems for the replacement of 1992-2009 engine model year class 4-8 public transit buses (large transit busses) with new replacement diesel or alternate fueled buses. However, the need for capital projects among public transit systems is diverse, while the Volkswagen language limits funding to specific purposes. The settlement funds can only be used to replace certain classifications of larger vehicles with diesel engines that were manufactured during a specific time (such as heavy-duty transit buses older than 2009). Many smaller urban and rural transit systems operate vans and shuttle buses and do not have any vehicles that would qualify for these replacement funds. Moreover, facility improvements and equipment acquisition projects are ineligible. Alternatively, a state-funded public transit capital program as recommended by the Transportation Finance and Policy Commission in 2013 and subsequently requested by DOT in the Department's 2015-17 budget request would address a broader array of capital needs among transit systems statewide. The Committee could choose to expand the definition of eligible capital projects to include the replacement, rehabilitation, and purchase of transit vehicles and related equipment and the construction of transit-related facilities. [Alternative 3]

9. The state transportation fund provides funding for a variety of state operations, like the Division of Motor Vehicles services and State Patrol, as well as maintenance of the state's highway infrastructure. In addition, the fund provide SEG monies for local transportation options primarily through general transportation aids and mass transit operating assistance as well as for a variety of local transportation infrastructure programs. Several of these programs have received SEG funding increases in recent biennia. Such SEG funding for 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 and maintenance programs. The question then arises as to whether the state's transportation fund has the financial ability to support both local transportation capital and infrastructure and state transportation infrastructure. On the other hand, since 2005(06), Department of Revenue has administered a levy limit program, that restricts 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 meet their capital and infrastructure needs.

10. Under the base level funding currently included in the substitute amendment to Assembly Bill 68/Senate Bill 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 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 SEG funding for transit capital assistance grants may be limited [Alternative 4].

ALTERNATIVES

1. Provide \$10,000,000 annually to a newly-created continuing appropriation to establish a transit capital assistance grant program administered by DOT.

ALT 1	Change to Base
SEG	\$20,000,000

2. Provide \$10,000,000 in 2022-23 to a newly-created continuing appropriation for to establish a transit capital assistance grant program administered by DOT. This would establish an ongoing base level of funding for local transit capital assistance.

ALT 2	Change to Base
SEG	\$10,000,000

3. In addition Alternative 1, expand the definition of "public transit vehicle" beyond what is currently allowed under the Volkswagen settlement guidelines (large buses). Specify that the grants could fund the replacement, rehabilitation, and purchase of any type of transit vehicle and related equipment and the construction of transit-related facilities. [Funding would be provided under Alternative 1.]

4. Take no action.

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