



Legislative Fiscal Bureau

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May 31, 2007

Joint Committee on Finance

Paper #771

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

Bill Agency

[LFB 2007-09 Budget Summary: Page 535, #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 2007 distribution amounts are \$59,107,000 SEG for Tier A-1 systems (Milwaukee), \$15,779,600 SEG for Tier A-2 systems (Madison), \$22,636,700 SEG for Tier B systems, and \$5,124,100 SEG for Tier C systems. Mass transit aid payments are made from four sum certain, transportation fund appropriations.

GOVERNOR

Provide \$2,022,700 SEG in 2007-08 and \$4,086,000 SEG in 2008-09 to fund a 2.0% annual calendar year increase in mass transit assistance to each tier of mass transit systems for calendar years 2008 and 2009. The increased funding would be distributed as follows: (a) \$1,164,700 in 2007-08 and \$2,352,800 in 2008-09 for Tier A-1 (Milwaukee); (b) \$310,900 in 2007-08 and \$628,100 in 2008-09 for Tier A-2 (Madison); (c) \$446,100 in 2007-08 and \$901,100 in 2008-09 for Tier B transit systems; and (d) \$101,000 in 2007-08 and \$204,000 in 2008-09 for Tier C transit systems. Set the calendar year distribution amounts at \$60,289,100 for 2008 and \$61,494,900 for 2009 and thereafter for Tier A-1, \$16,095,200 for 2008 and \$16,417,100 for 2009 and thereafter for Tier A-2, \$23,089,100 for 2008 and \$23,551,200 for 2009 and thereafter for Tier B, and \$5,225,600 for 2008 and \$5,331,100 for 2009 and thereafter for Tier C.

Repeal statutory references relating to aid payments for each tier of systems for calendar years 2004 and 2005.

DISCUSSION POINTS

1. The current system of tiers generally parallels federal aid categories, with tiers for urbanized areas with populations over 200,000 (Tiers A-1 and A-2), urbanized areas with populations between 50,000 and 200,000 (Tier B), and nonurbanized areas (Tier C). Waukesha County and City systems are considered part of the Milwaukee urbanized area and the Monona system is considered part of the Madison urbanized area for federal aid purposes, but they are included in Tier B for state aid purposes. Urbanized areas over 200,000 receive their federal aid directly from the Federal Transit Administration, while the smaller urban systems and the nonurban systems receive their federal funding through DOT. Urban systems that receive direct federal aid must report any federal maintenance funds used to fund annual operating costs.

2. 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. 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 the tier, each system's share of the state funding is affected by the cost changes of the other systems, as well as its own costs.

3. The following table indicates the total funding provided for mass transit operating assistance over the past ten years. While the program received steady state funding increases from 1998 through 2000, the state has provided a funding increase for mass transit operating assistance for only four of the last seven years.

<u>Calendar Year</u>	<u>Amount</u>	<u>Percent Change</u>
1998	\$83,592,100	
1999	86,517,700	3.5%
2000	93,006,500	7.5
2001	93,006,500	0.0
2002	96,726,800	4.0
2003	98,661,400	2.0
2004	98,661,400	0.0
2005	98,661,400	0.0
2006	100,634,600	2.0
2007	102,647,400	2.0

4. As indicated in the following table, state aid as a percentage of costs has decreased over the past eight years for each tier of systems. However, due to federal funding increases and the required reporting of federal capitalized maintenance funds for Tier A-1 and Tier A-2, there has not been a corresponding decrease in the overall percentage of costs covered by state and federal funds. The following table indicates the state funding and combined state and federal funding as a percent of each tier's operating expenses for the past eight years.

State and Federal Funding as a Percentage of Expenses by Tier

<u>Year</u>	<u>Tier A-1</u>		<u>Tier A-2</u>	
	<u>State Aid Percentage</u>	<u>Combined State/Federal Percentage</u>	<u>State Aid Percentage</u>	<u>Combined State/Federal Percentage</u>
1999	46.0%	46.0%	46.0%	46.0%
2000	45.7	50.0	40.4	50.4
2001	42.2	51.5	35.7	44.6
2002	42.2	51.1	41.2	50.8
2003	42.8	53.0	42.3	52.5
2004	40.9	52.7	41.4	53.4
2005	40.6	53.7	38.4	50.7
2006	40.7	53.6	37.3	50.2

<u>Year</u>	<u>Tier B</u>		<u>Tier C</u>	
	<u>State Aid Percentage</u>	<u>Combined State/Federal Percentage</u>	<u>State Aid Percentage</u>	<u>Combined State/Federal Percentage</u>
1999	41.9%	60.0%	36.6%	66.4%
2000	41.2	59.9	37.1	67.4
2001	39.1	60.0	34.2	66.4
2002	36.8	60.4	35.1	65.4
2003	34.3	60.0	40.2	66.4
2004	35.2	60.0	34.6	64.5
2005	33.3	58.9	32.5	64.8
2006	31.9	60.0	31.8	64.8

5. The Governor's recommendation would provide a 2% increase in funding for each tier of systems. However, slight adjustments to the 2008 calendar year amounts for Tiers B and C (to \$23,089,400 and \$5,226,600, respectively) would need to be made to set these amounts at a level that would both equal a 2% increase and match the proposed appropriations.

6. Providing a 2% annual increase in transit operating assistance would not keep pace with recent growth in eligible costs under the program. The average, annual growth in eligible costs under the program from 1999 to 2006 was 3.5% for Tier A-1 and 4.6% for Tier A-2. The average, annual increase in the combined costs for Tier B and Tier C was 5.8% for the same period

(combined costs for these two tiers are used because, as a result of the 2000 census, transit systems were added to Tier B that had previously been categorized as Tier C systems). Particularly, rising fuel costs have been a factor in increased transit costs in recent years. Higher fuel costs require systems to expend additional funds to provide the same level of transit services. Providing a percentage increase in funding that is greater than forecasted inflation (2.1% for 2008 and 1.9% for 2009) would assist local governments in funding these higher costs.

7. The following table shows the funding amounts associated with several annual percentage rate increases for the mass transit operating assistance program.

<u>Annual % Increase</u>	<u>Above-Base Increase</u>	
	<u>2007-08</u>	<u>2008-09</u>
1.0%	\$1,766,200	\$1,235,900
2.0 (Bill)	2,022,700	4,086,000
3.0	2,253,600	5,277,600
4.0	2,536,100	6,683,000
5.0	2,766,400	7,882,300
6.0	3,049,300	9,300,400

8. Under the bill as submitted, the estimated biennium-ending balance in the transportation fund was \$30.9 million. (Under the revenue reestimate described in LFB Issue Paper #760, the ending balance under SB 40 is now estimated at \$99,814,900) Subsequent to the introduction of the budget bill, the Department of Administration issued an errata, indicating that the Governor's intent was to leave a balance of approximately \$3.0 million. Consequently, the Governor recommends that a portion of the \$30.9 million be used to provide additional increases to local transportation aid programs, as well as the state highway rehabilitation and major highway development programs.

9. Statewide, local revenues for mass transit totaled \$50.3 million in 2006, which covered an average of 18.7% of mass transit costs for that year. These local revenues for transit expenses are funded from local general fund taxes and state shared revenues. Correspondingly, an increase in mass transit aid could be seen as a means to mitigate the impact of providing limited increases in other state aid programs that provide funds to counties and municipalities. In addition, providing a mass transit aid increase could help offset the impact of any local levy limit imposed on counties and municipalities. If no increase in transit funds is provided, local governments may choose to reduce services in order to reduce costs that would otherwise be funded from general property taxes, or they may increase fares for transit users. Both of these actions could limit current riders' access to transit services.

10. Some have contended that because revenues to the transportation fund are paid from citizens who travel roads throughout the state, a consistent portion of those revenues should be redistributed to local units of government to assist in maintaining their transportation infrastructure. In 2006-07, local transportation aid programs, including the general transportation aid, local road

improvement, and mass transit assistance programs and other transportation programs that provide assistance to local units of government, were funded at a level equal to 38.5% of net transportation fund revenues. Under the bill, as introduced, these programs would receive a smaller percentage share of net transportation fund revenues, estimated at 35.4% in 2007-08 and 34.6% in 2008-09.

11. 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 2009 increase (the April payment) would be paid in 2008-09. The remaining portion of the calendar year 2009 increase would have to be funded in each year of the next biennium. This future funding commitment would total \$1,570,500 under the 2.0% annual increase included under the bill. If no increase is provided over the 2008 statutory distribution level, no future funding commitment would exist.

12. Similarly, if no funding increase is provided over the 2006-07 base level funding amount, the appropriation levels for the 2007-09 biennium would not be sufficient to fund the 2% increase in the 2007 statutory distribution level under current law. In order to fully fund the 2007 increase, SB 40 provides \$869,200 annually for Tier A-1, \$232,000 annually for Tier A-2, \$332,900 annually for Tier B, and \$75,400 annually for Tier C. If no increases to base level funding are provided, DOT would have to prorate payments in 2007 and thereafter at 98.5%.

13. Another option that the Committee could consider is the recommendation of the Joint Legislative Committee on Transportation Needs and Financing, commonly known as the "Road to the Future Committee." In December, 2006, that Committee issued its final report, recommending funding increases in several key surface transportation programs. For the mass transit operating assistance program, the report recommended providing funding to return to a 42% level of state support of operating expenses and to provide additional funding to Milwaukee County to fund 42% of the level of service that existed prior to recent service reductions. To do these two things, the report recommended adding \$11.8 million and \$8.4 million, respectively. If this was done effective in 2008, it would require total funding of \$5,050,000 in 2007-08 and \$20,200,000 in 2008-09. If the service restoration funding for Milwaukee County is not provided, the total funding required would drop to \$2,950,000 in 2007-08 and \$11,800,000 in 2008-09.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide \$2,022,700 SEG in 2007-08 and \$4,086,000 SEG in 2008-09 to fund a 2.0% annual calendar year increase in mass transit assistance to each tier of mass transit systems for calendar years 2008 and 2009. The increased funding would be distributed as follows: (a) \$1,164,700 in 2007-08 and \$2,352,800 in 2008-09 for Tier A-1 (Milwaukee); (b) \$310,900 in 2007-08 and \$628,100 in 2008-09 for Tier A-2 (Madison); (c) \$446,100 in 2007-08 and \$901,100 in 2008-09 for Tier B transit systems; and (d) \$101,000 in 2007-08 and \$204,000 in 2008-09 for Tier C transit systems.

Set the calendar year distribution amounts at \$60,289,100 for 2008 and \$61,494,900 for 2009 and thereafter for Tier A-1, \$16,095,200 for 2008 and \$16,417,100 for 2009 and thereafter for

Tier A-2, \$23,089,400 (revised) for 2008 and \$23,551,200 for 2009 and thereafter for Tier B, and \$5,226,600 (revised) for 2008 and \$5,331,100 for 2009 and thereafter for Tier C. Repeal statutory references relating to aid payments for each tier of systems for calendar years 2004 and 2005.

ALT 1	Change to Bill Funding	Change to Base Funding
SEG	\$0	\$6,108,700

2. Modify the Governor's recommendation by providing annual mass transit aid increases (SEG) for 2008 and 2009 at one of the following percentages. Set the distributions for each tier and change the mass transit aid appropriations as shown below:

	Calendar Year		Change to Base		Change to Bill	
	<u>Distribution Amounts</u> 2008	<u>Distribution Amounts</u> 2009*	<u>Change to Base</u> 2007-08	<u>Change to Base</u> 2008-09	<u>Change to Bill</u> 2007-08	<u>Change to Bill</u> 2008-09
1. One Percent						
Tier A-1	\$59,698,100	\$60,295,100	\$1,017,000	\$1,609,600	-\$147,700	-\$743,200
Tier A-2	15,937,400	16,096,800	271,500	429,700	-39,400	-198,400
Tier B	22,863,100	23,091,700	389,500	616,500	-56,600	-284,600
Tier C	<u>5,175,300</u>	<u>5,227,100</u>	<u>88,200</u>	<u>139,600</u>	<u>-12,800</u>	<u>-64,400</u>
	\$103,673,900	\$104,710,700	\$1,766,200	\$2,795,400	-\$256,500	-\$1,290,600
2. Three Percent						
Tier A-1	\$60,880,200	\$62,706,600	\$1,312,500	\$3,099,000	\$147,800	\$746,200
Tier A-2	16,253,000	16,740,600	350,400	827,300	39,500	199,200
Tier B	23,315,800	24,015,300	502,700	1,186,900	56,600	285,800
Tier C	<u>5,277,800</u>	<u>5,436,100</u>	<u>113,800</u>	<u>268,700</u>	<u>12,800</u>	<u>64,700</u>
	\$105,726,800	\$108,898,600	\$2,279,400	\$5,381,900	\$256,700	\$1,295,900
3. Four Percent						
Tier A-1	\$61,471,300	\$63,930,200	\$1,460,300	\$3,848,200	\$295,600	\$1,495,400
Tier A-2	16,410,800	17,067,200	389,800	1,027,300	78,900	399,200
Tier B	23,542,200	24,483,900	559,300	1,473,800	113,200	572,700
Tier C	<u>5,329,100</u>	<u>5,542,300</u>	<u>126,700</u>	<u>333,700</u>	<u>25,700</u>	<u>129,700</u>
	\$106,753,400	\$111,023,600	\$2,536,100	\$6,683,000	\$513,400	\$2,597,000
4. Five Percent						
Tier A-1	\$62,062,400	\$65,165,500	\$1,608,100	\$4,600,400	\$443,400	\$2,247,600
Tier A-2	16,568,600	17,397,000	429,300	1,228,100	118,400	600,000
Tier B	23,768,500	24,956,900	615,900	1,761,800	169,800	860,700
Tier C	<u>5,380,300</u>	<u>5,649,300</u>	<u>139,500</u>	<u>398,900</u>	<u>38,500</u>	<u>194,900</u>
	\$107,779,800	\$113,168,700	\$2,792,800	\$7,989,200	\$770,100	\$3,903,200
5. Six Percent						
Tier A-1	\$62,653,400	\$66,412,600	\$1,755,800	\$5,355,400	\$591,100	\$3,002,600
Tier A-2	16,726,400	17,730,000	468,700	1,429,700	157,800	801,600
Tier B	23,994,900	25,434,600	672,500	2,051,000	226,400	1,149,900
Tier C	<u>5,431,500</u>	<u>5,757,400</u>	<u>152,300</u>	<u>464,300</u>	<u>51,300</u>	<u>260,300</u>
	\$108,806,200	\$115,334,600	\$3,049,300	\$9,300,400	\$1,026,600	\$5,214,400

*And thereafter.

3. Delete the increases recommended by the Governor. Instead, provide the following amounts to fully fund the calendar year 2007 increase in the biennium: (a) \$869,200 SEG annually for Tier A-1; (b) \$232,000 SEG annually for Tier A-2; (c) \$332,900 SEG annually for Tier B; and (d) \$75,400 SEG annually for Tier C.

ALT 3	Change to Bill Funding	Change to Base Funding
SEG	- \$3,089,700	\$3,019,000

4. Beginning in 2008, adopt one or both of the following to provide the funding recommended by the "Road to the Future Committee." *[These alternatives could be combined with any of the other alternatives.]*

a. Increase the calendar year distributions by \$1,830,000 for Tier A-1, \$1,930,000 for Tier A-2, \$6,430,000 for Tier B, and \$1,610,000 for Tier C. Provide SEG funding increases of \$457,500 in 2007-08 and \$1,830,000 in 2008-09 for Tier A-1, \$482,500 in 2007-08 and \$1,930,000 in 2008-09 for Tier A-2, \$1,607,500 in 2007-08 and \$6,430,000 in 2008-09 for Tier B, and \$402,500 in 2007-08 and \$1,610,000 in 2008-09 for Tier C to fund the distribution increases.

ALT 4a	Change to Bill Funding	Change to Base Funding
SEG	\$14,750,000	\$14,750,000

b. Increase the calendar year distribution for Tier A-1 (Milwaukee County) by \$8,400,000. Provide \$2,100,000 SEG in 2007-08 and \$8,400,000 SEG in 2008-09 to fund this distribution increase.

ALT 4b	Change to Bill Funding	Change to Base Funding
SEG	\$10,500,000	\$10,500,000

5. Delete provision. (No increase to base level funding would be provided and payments would be prorated.)

ALT 5	Change to Bill Funding	Change to Base Funding
SEG	- \$6,108,700	\$0

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