



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #651

Mass Transit Operating Assistance -- Funding Level and Convert Funding to GPR (DOT -- Local Transportation Aid)

[LFB 2011-13 Budget Summary: Page 433, #2 and #3]

CURRENT LAW

In 2011, state mass transit systems will receive \$118.3 million in state transit aid. Over 90% of this aid will be distributed to bus systems, with the remainder being distributed to shared-ride taxi systems. Calendar year 2011 distributions are set at \$68,583,200 for Tier A-1 (Milwaukee), \$18,021,300 for Tier A-2 (Madison), \$25,852,500 for Tier B, and \$5,852,200 for Tier C. No funding is currently appropriated for Tier A-3 commuter rail systems.

GOVERNOR

Funding Level

Provide decreases of \$373,200 SEG in 2011-12 and \$9,246,400 SEG in 2012-13, as follows: (a) -\$216,400 in 2011-12 and -\$5,360,100 in 2012-13 for Tier A-1 (Milwaukee); (b) -\$56,800 in 2011-12 and -\$1,408,400 in 2012-13 for Tier A-2 (Madison); (c) -\$81,600 in 2011-12 and -\$2,020,600 in 2012-13 for Tier B transit systems; and (d) -\$18,400 in 2011-12 and -\$457,300 in 2012-13 for Tier C transit systems. Set the calendar year distribution amounts for 2012 and thereafter at \$61,724,900 for Tier A-1, \$16,219,200 for Tier A-2, \$23,267,200 for Tier B, and \$5,267,000 for Tier C. This represents a 10% decrease from the 2011 mass transit operating assistance funding level to each tier of mass transit systems for calendar year 2012 and thereafter. Repeal statutory references relating to aid payments for each tier of systems for calendar years 2008 and 2009.

Convert Funding to GPR

Provide \$106,478,300 GPR in 2012-13 and make a corresponding reduction of \$106,478,300 SEG in 2012-13 to reflect the conversion of DOT's mass transit operating assistance program funding from the transportation fund to the general fund. Effective July 1, 2012, renumber the mass transit operating assistance appropriations and specify that the

appropriations would be made from the general fund. In addition, modify the references to the appropriations under DOT's urban mass transit assistance program to reflect the renumbering.

DISCUSSION POINTS

Background

1. The state's current mass transit tier system 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). The Ozaukee County, Washington County, and Waukesha systems are within the Milwaukee urbanized area and the Monona, Stoughton, Sun Prairie, and Verona systems are within the Madison urbanized area for federal aid purposes. However, Verona is the only municipality other than Madison that receives federal aid in the Madison urbanized area. Urbanized areas over 200,000 receive their federal aid directly from the Federal Transit Administration (FTA), while the smaller urban systems and the nonurban systems receive their federal funding through the Wisconsin Department of Transportation (DOT).

2. Transit systems that serve populations over 200,000 are not eligible for federal operating assistance. These systems do receive federal capital assistance, and the federal appropriation language for that assistance allows a portion of the capital funding to be used to fund annual maintenance costs of such systems, which are generally considered operating expenses. These systems must report any federal maintenance funds used to fund annual operating costs to DOT for the purposes of administering the mass transit operating assistance program.

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

4. Total state mass transit operating assistance funding has increased in recent years. The following table lists the funding levels and percentage change in mass transit operating assistance for each of the past ten years and the proposed amount for 2012.

TABLE 1
Mass Transit Operating Assistance Funding

| <u>Calendar Year</u> | <u>Amount</u> | <u>% Change</u> |
|----------------------|---------------|-----------------|
| 2002 | \$96,726,800 | |
| 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 |
| 2008 | 110,013,600 | 7.2 |
| 2009 | 112,643,900 | 2.4 |
| 2010 | 114,863,100 | 2.0 |
| 2011 | 118,309,200 | 3.0 |
| 2012 (proposed) | 106,478,300 | -10.0 |

Impact of Proposed Aid Reduction

5. The Governor's recommended appropriation levels would fully fund the calendar year 2011 increase in mass transit operating assistance provided in 2009 Act 28. The appropriation decreases are associated with the proposed 10% funding reduction for aid in calendar year 2012 and thereafter. The following table indicates the recommended annual funding levels for each tier of systems in 2011(current law) and in 2012 and thereafter (proposed).

TABLE 2
**Transit Funding by Tier of Systems Under the Governor's
2011-13 Budget Recommendations**

| <u>Tier</u> | <u>2011</u> | <u>2012</u> | <u>Difference</u> | <u>Percent</u> |
|-------------|------------------|------------------|-------------------|----------------|
| Tier A-1 | \$68,583,200 | \$61,724,900 | -\$6,858,300 | -10.0% |
| Tier A-2 | 18,021,300 | 16,219,200 | -1,802,100 | -10.0 |
| Tier B | 25,852,500 | 23,267,200 | -2,585,300 | -10.0 |
| Tier C | <u>5,852,200</u> | <u>5,267,000</u> | <u>-585,200</u> | <u>-10.0</u> |
| Total | \$118,309,200 | \$106,478,300 | -\$11,830,900 | -10.0% |

6. The 2011 aid contracts between DOT and the state's transit systems have not yet been finalized. This is primarily due to the delay in congressional approval of the 2011 FTA grant program funding, which is part of prolonged congressional debate on the recently enacted 2011 federal budget. Federal transit funding for 2011 is expected to be near the 2010 levels. However, due to long-term budgetary concerns associated with the federal highway trust fund, which includes

the mass transit account and funding, reductions in federal transit aid are a possibility in future years. Any reduction in federal formula funding would further exacerbate the impact of the proposed state aid reductions to mass transit.

7. The Governor has indicated that the reductions in the bill for transit and other local aid programs would be offset by the changes to the state's collective bargaining laws included under 2011 Act 10. He indicates those changes would lead to reduced payroll costs for local governments, which would allow them to absorb the state aid reductions. Specifically, the Governor has pointed to the Act 10 provisions that would require local employees to pay the full employee share of their pension contributions (generally 5.8% of salary) and additional health care premiums, both previously paid by the governmental employer, as the means by which local governments could reduce their payroll costs. However, many transit systems in southeastern Wisconsin, including Milwaukee County Transit, as well as most shared-ride taxi operations, are not run by the municipal government whose area they serve. Rather, these systems are operated by private transit companies or contractors. Therefore, the employees of these systems would not be subject to the Act 10 changes. As a result, Milwaukee County Transit, and several major Tier B systems in southeast Wisconsin, as well as most shared-ride taxi systems, may not experience payroll reductions to assist in offsetting the state aid reduction. In a somewhat similar situation, the Governor, in recognizing the inability of many town governments to generate payroll reductions under Act 10, provided only a 3% reduction in general transportation aids to those governments (primarily towns) on the rate per mile formula, while most other municipalities received a 10% to 15% reduction.

8. Also, under federal labor law, transit systems are required to maintain the collective bargaining rights that existed for their transit workers when that system first received FTA transit funding. No FTA transit funding may be awarded unless this provision is met. U.S. Department of Labor officials have indicated that the changes to the state's collective bargaining laws under Act 10 could impact the ability of unionized, government-operated transit systems to receive FTA grant funding unless changes are made to protect their workers' collective bargaining rights. Any actions by local units of government to protect such rights in order to receive federal funding could make it more difficult for government-operated transit systems to attain any of the payroll concessions that may be available under Act 10.

9. As indicated in Table 3, if the proposed 10% reduction in transit operating assistance had occurred in 2010, the percentage of transit system costs covered by state aid would have declined by 3.6% statewide. Among the individual tiers of systems, a 10% aid reduction in 2010 would have resulted in decreases in state aid as a percentage of costs ranging from 2.6% to 4.0%. Tier A-1 (Milwaukee County) and Tier A-2 (Madison) systems are limited by federal law in their ability to use federal transit aid to assist in their systems' operations. Therefore, compared to Tier B and Tier C systems, these systems are more heavily dependent on state aid to cover their costs. As a result of this dependence, the proposed reduction in transit aid will require the Milwaukee County and Madison systems to cover an even greater share of their costs than the other tiers in order to replace the lost state aid.

TABLE 3**State and Federal Funding as a Percentage of Operating Cost
by Tier in 2010 and Under a 10% Reduction in 2010**

| | <u>2010 Actual</u> | | <u>2010 With 10% Reduction</u> | | <u>Difference</u> | |
|-----------|--------------------------|------------------------------|--------------------------------|------------------------------|--------------------------|------------------------------|
| | <u>State Funding</u> | <u>State and Federal</u> | <u>State Funding</u> | <u>State and Federal</u> | <u>State Funding</u> | <u>State and Federal</u> |
| Tier A-1 | 40.0% | 51.2% | 36.0% | 47.2% | -4.0% | -4.0% |
| Tier A-2 | 36.2 | 50.8 | 32.6 | 47.2 | -3.6 | -3.6 |
| Tier B | 30.6 | 58.5 | 27.5 | 55.4 | -3.1 | -3.1 |
| Tier C | 26.0 | 64.5 | 23.4 | 61.9 | -2.6 | -2.6 |
| Statewide | 36.0 | 53.9 | 32.4 | 50.3 | -3.6 | -3.6 |

10. With the chances of increased federal funding levels for transit in 2012 and 2013 unknown at this time, local governments that operate a transit system would have three options to consider if the proposed state funding reductions are enacted: (a) increase the amount of local funding provided for transit; (b) increase fares paid by the users of their transit services; or (c) reduce the level of transit service and the costs associated with that service. As the following points show, relying on only one of these options may be difficult, so transit operators may need to implement a combination of actions.

11. Local funding for transit primarily consists of local property tax revenue. Statewide, local revenues for mass transit totaled \$55.5 million in 2010, which covered an average of 17.4% of mass transit costs for that year. Had the proposed reduction in transit aid occurred in that year, local governments would have had to provide an additional \$11.5 million in transit assistance, or an average increase of 20.7% in the amount of local funding, in order to maintain the existing service with no additional fare increases. However, since the bill includes a somewhat restrictive local levy limit for counties and municipalities, local governments may not be able to raise additional property taxes to replace the proposed reduction in state aid. Therefore, if a county or municipality wanted to increase local funding for transit to replace the reduction in state aid, it would likely have to reduce local expenditures elsewhere in its budget.

12. In 2010, local farebox revenues for transit totaled \$91.3 million. Had the proposed reduction in transit aid occurred in that year, local governments would have had to raise fares by an average of 12.6% in order to fully replace the proposed state aid reduction and maintain the same level of transit service. The actual percentage increase in farebox revenues would vary by system. For example, to fully cover the state aid reduction, Milwaukee County Transit fare revenues would have had to increase by 11.2%, while Fox Valley Transit fares would have had to increase by 14.2%. However, because transit ridership is sensitive to changes in fares, ridership would likely decrease if fares were increased to cover the full amount of state aid reductions. Therefore, any increase in transit fares would have to net the loss in revenue associated with reductions in ridership against any additional revenue associated with the fare increases. Depending on the magnitude of

this effect, it may be difficult for some transit systems to recover the reduction in state aid from increased fares alone.

13. In 2010, according to DOT's transit contracts, transit costs statewide totaled \$318.8 million. Statewide, a 10% reduction in 2010 state transit aid would have equaled 3.6% of those transit costs. Similar to fare increases, any reduction in transit services made in an attempt to better absorb the proposed state aid reductions could lead to a net reduction in revenues depending on the profitability of the service being cut. Again, this could make it difficult for transit systems to look to service cuts alone to make up for reductions in state transit aid.

14. The Southeastern Wisconsin Regional Planning Commission (SEWRPC) recently completed a study on the potential service reductions and fare increases that would be needed to offset the proposed state transit aid reductions in 2012. The study looked at the transit systems in southeastern Wisconsin, including the bus systems serving Kenosha, Milwaukee, and Racine counties and the shared-ride taxi systems operated in the cities of Hartford, Port Washington, West Bend, and Whitewater. The study assumes a 3% increase in operating costs to support existing transit service levels. SEWRPC found that the bus systems in the region would have to increase fares between 29% and 60% to offset the proposed reduction in state transit aid, with the shared-ride taxi fares having to increase an estimated 28% to 36%. The study also found that the potential service reductions that could be needed to offset the proposed lower state aid levels would range from 6% to 10% for the region's bus systems and 6% or 7% for the shared-ride taxi systems that were studied. These fare increases and service cut estimates for southeast Wisconsin are larger than the statewide estimates presented earlier because they include two additional years of cost growth associated with the existing service level. In addition, the estimates account for revenue and ridership losses associated with the potential fare increases or service cuts.

15. Under the 2009 federal American Reinvestment and Recovery Act (ARRA), transit systems in Wisconsin were apportioned \$81.3 million in federal funding in addition to the state's annual federal transit formula funding apportionments in that year. This funding was expended in the state during 2008-09 and 2009-10. The federal ARRA funding was used for capital expenditures and not operating costs and was distributed as follows: \$28.5 million to Milwaukee (Tier A-1); \$9.5 million to Madison (Tier A-2); \$23.2 million to systems in areas between 50,000 and 200,000 in population (Tier B); and \$20.1 million to systems in areas with populations under 50,000 (primarily Tier C systems). While this funding could not be used for operating costs, the provision of this funding likely reduced the long term capital needs of the state's larger systems. This may allow additional FTA transit formula funds to be freed up for use by such systems to fund capitalized maintenance. Also, because the state's transit systems used this funding to purchase new transit vehicles and equipment, in the near term, the annual maintenance costs associated with those newer vehicles may be lower as well.

Funding Alternatives

16. Table 4 shows the funding amounts associated with several annual percentage rate changes for the mass transit operating assistance program (due to the difference between the state's fiscal year and the transit aid payment dates, above-base funding would be required even with no

calendar year increase or many of the decreases shown). Compared to the bill, each of these alternatives would provide a smaller reduction from 2011 to 2012 and would then maintain that aid level in 2013 and thereafter [Alternative 2].

TABLE 4

Potential Funding Changes

| % Change in 2012 | Change to Base | | Change to Bill | |
|---------------------|----------------|-------------|----------------|--------------|
| | 2011-12 | 2012-13 | 2011-12 | 2012-13 |
| 0.0% | \$2,584,500 | \$2,584,500 | \$2,957,700 | \$11,830,900 |
| -2.0 | 1,993,100 | 218,400 | 2,366,300 | 9,464,800 |
| -4.0 | 1,401,500 | -2,147,900 | 1,774,700 | 7,098,500 |
| -6.0 | 809,900 | -4,514,000 | 1,183,100 | 4,732,400 |
| -8.0 | 218,400 | -6,880,300 | 591,600 | 2,366,100 |
| -10.0 (Bill) | -373,200 | -9,246,400 | 0 | 0 |

17. Under the bill, many other state aid programs, including general transportation aid, would receive a reduction in funding in the biennium. Similar to state transit assistance, general transportation aid funding would be reduced by 10% in 2012, with no increase in 2013. In contrast, the Governor's recommendations would increase transportation fund appropriations over the biennium for the state's highway construction and rehabilitation programs. Combined total transportation fund appropriations for mass transit, general transportation aids, and the state highway programs would be reduced by 0.5% compared to the base year appropriations doubled for the same programs. If the Committee wanted to provide a uniform 0.5% reduction to all three programs, a 4.3% reduction in mass transit operating assistance in 2012 would be needed, with no additional change in 2013 and thereafter. Compared to the bill, the additional funding for mass transit operating assistance that would be needed to fund these distribution levels would be \$1,685,900 in 2011-12 and \$6,743,600 in 2012-13 [Alternative 2d].

18. During Joint Finance deliberations on the creation of regional transit authorities in Wisconsin, this office provided information [2009 LFB Issue Papers #766, #767, and #768] that indicated that, across the country, local sales tax revenues are used to assist in the funding the operations of small, medium, and large-sized transit systems. As discussed earlier, local units of government would likely have difficulty absorbing the proposed 10% reduction without significant increases in fares or reductions in service. Therefore, similar to other areas of the country, the Committee could provide the sponsoring county or municipality of the state's larger bus systems (Tier A-1, Tier A-2, and Tier B systems) the authority to impose up to 0.5% sales and use taxes within their territorial boundaries to assist in offsetting the proposed state aid reductions. The Committee could require that before any county or municipality could impose the sales and use taxes, the resolution imposing the taxes must be approved by its voters at referendum [Alternative 3].

Conversion of Funding from SEG to GPR

19. Under the Governor's budget recommendations, beginning in 2012-13, the mass

transit operating assistance program would be funded from a GPR appropriation rather than from a transportation fund SEG appropriation. The bill would provide \$106,478,300 GPR in 2012-13 and make a corresponding reduction of \$106,478,300 SEG in 2012-13 to reflect this conversion. Unless readdressed by a future Legislature, this action would result in the state's mass transit assistance program being funded from the general fund on an ongoing basis, and would result in an ongoing reduction in appropriations for this purpose from the transportation fund.

20. The proposed conversion of the mass transit operating assistance program funding from the transportation fund to the general fund is one of a number of related proposals being made under the Governor's budget. The Governor's budget recommends the deposit of revenues currently deposited to the general fund and other segregated funds to the transportation fund. In addition, similar to the mass transit funding proposal, the budget would fund state highway rehabilitation costs, which have been historically funded from the transportation fund, from the general fund. A description of these revenue and program cost transfers, along with a discussion of each of those proposals, is provided in LFB Paper #642. Alternatives #5 and #6 of this paper would approve or reject, respectively, the Governor's proposal as it relates to mass transit funding.

ALTERNATIVES

Funding Level

1. Approve the Governor's recommendation to provide decreases of \$373,200 SEG in 2011-12 and \$9,246,400 SEG in 2012-13, as follows: (a) -\$216,400 in 2011-12 and -\$5,360,100 in 2012-13 for Tier A-1 (Milwaukee); (b) -\$56,800 in 2011-12 and -\$1,408,400 in 2012-13 for Tier A-2 (Madison); (c) -\$81,600 in 2011-12 and -\$2,020,600 in 2012-13 for Tier B transit systems; and (d) -\$18,400 in 2011-12 and -\$457,300 in 2012-13 for Tier C transit systems. Set the calendar year distribution amounts for 2012 and thereafter at \$61,724,900 for Tier A-1, \$16,219,200 for Tier A-2, \$23,267,200 for Tier B, and \$5,267,000 for Tier C. This represents a 10% decrease from the 2011 mass transit operating assistance funding level to each tier of mass transit systems for calendar year 2012 and thereafter. Repeal statutory references relating to aid payments for each tier of systems for calendar years 2008 and 2009.

2. Modify the Governor's recommendation by providing annual mass transit aid changes (SEG) for 2012 and 2013 at one of the following percentages. [Although shown as SEG, the change in 2012-13 would be a GPR change if the Committee adopts the Governor's recommendation to fund mass transit operating assistance with GPR, beginning in 2012-13.] Set the distributions for each tier and change the mass transit aid appropriations as shown below:

| | Calendar Year 2012 | SEG Change to Bill | |
|---------------------|--------------------|--------------------|----------------|
| | Distribution* | 2011-12 | 2012-13 |
| a. No Change | | | |
| Tier A-1 | \$68,583,200 | \$1,714,600 | \$6,858,300 |
| Tier A-2 | 18,021,300 | 450,500 | 1,802,100 |
| Tier B | 25,852,500 | 646,300 | 2,585,300 |
| Tier C | <u>5,852,200</u> | <u>146,300</u> | <u>585,200</u> |
| | \$118,309,200 | \$2,957,700 | \$11,830,900 |
| b. -2%/0% | | | |
| Tier A-1 | \$67,211,500 | \$1,371,700 | \$5,486,600 |
| Tier A-2 | 17,660,900 | 360,400 | 1,441,700 |
| Tier B | 25,335,500 | 517,100 | 2,068,300 |
| Tier C | <u>5,735,200</u> | <u>117,100</u> | <u>468,200</u> |
| | \$115,943,100 | \$2,366,300 | \$9,494,800 |
| c. -4%/0% | | | |
| Tier A-1 | \$65,839,900 | \$1,028,800 | \$4,115,000 |
| Tier A-2 | 17,300,400 | 270,300 | 1,081,200 |
| Tier B | 24,818,400 | 387,800 | 1,551,200 |
| Tier C | <u>5,618,100</u> | <u>87,800</u> | <u>351,100</u> |
| | \$113,576,800 | \$1,774,700 | \$7,098,500 |
| d. -4.3%/0% | | | |
| Tier A-1 | \$65,634,100 | \$977,300 | \$3,909,200 |
| Tier A-2 | 17,246,400 | 256,800 | 1,027,200 |
| Tier B | 24,740,800 | 368,400 | 1,473,600 |
| Tier C | <u>5,600,600</u> | <u>83,400</u> | <u>333,600</u> |
| | \$113,221,900 | \$1,685,900 | \$6,743,600 |
| e. -6%/0% | | | |
| Tier A-1 | \$64,468,200 | \$685,900 | \$2,743,300 |
| Tier A-2 | 16,940,000 | 180,200 | 720,800 |
| Tier B | 24,301,400 | 258,500 | 1,034,200 |
| Tier C | <u>5,501,100</u> | <u>58,500</u> | <u>234,100</u> |
| | \$111,210,700 | \$1,183,100 | \$4,732,400 |
| f. -8%/0% | | | |
| Tier A-1 | \$63,096,500 | \$342,900 | \$1,371,600 |
| Tier A-2 | 16,579,600 | 90,100 | 360,400 |
| Tier B | 23,784,300 | 129,300 | 517,100 |
| Tier C | <u>5,384,000</u> | <u>29,300</u> | <u>117,000</u> |
| | \$108,844,400 | \$591,600 | \$2,366,100 |

*And thereafter.

3. Provide any county or municipality that operates or sponsors a Tier A-1, Tier A-2, or Tier B mass transit bus system the authority to impose up to 0.5% sales and use taxes to fund the operation of that transit system. In addition, specify that before any county or municipality may impose the sales and use taxes under this alternative, the resolution imposing the taxes must be approved by its voters at referendum

4. Delete provision. (No change to base level funding would be provided and payments 2011 and thereafter would be prorated at an average of 97.8%.)

| | |
|--------------|-----------------------------------|
| ALT 4 | Change to Bill Funding |
| SEG | \$9,619,600 |

Convert Funding to GPR

The SEG and GPR amounts under these alternatives will vary based on the funding level alternatives selected. Under the bill, 2012-13 mass transit operating assistance funding of \$106,478,300 would be converted from SEG to GPR.

5. Approve the Governor's recommendation to convert funding for the mass transit operating assistance program from the transportation fund to the general fund, effective July 1, 2012.
6. Delete provision.

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