



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

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Joint Committee on Finance

Paper #711

Mass Transit Operating Assistance and Transit Capital Assistance Grants (Transportation -- Local Transportation Aid)

[LFB 2019-21 Budget Summary: Page 413, #2, #3]

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 2019 distribution amounts are \$64,193,900 SEG for Tier A-1 systems (Milwaukee County), \$16,868,000 SEG for Tier A-2 systems (Madison), \$24,486,700 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 \$5,188,900 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.

GOVERNOR

Mass Transit Operating Assistance. Provide \$2,768,600 in 2019-20 and \$11,073,800 in 2020-21 to provide a 10% increase in mass transit operating assistance to each tier of mass transit systems for calendar year 2020 and thereafter. Specify that the increase in funding would be distributed as follows: (a) \$1,604,900 in 2019-20 and \$6,419,400 in 2020-21 for Tier A-1 (Milwaukee County); (b) \$421,700 in 2019-20 and \$1,686,800 in 2020-21 for Tier A-2 (Madison); (c) \$612,200 in 2019-20 and \$2,448,700 in 2020-21 for Tier B transit systems; and (d) \$129,800 in 2019-20 and \$518,900 in 2020-21 for Tier C transit systems. Set the statutory calendar year distribution amounts for 2020 and thereafter at \$70,613,300 for Tier A-1, \$18,554,800 for Tier A-2, \$26,935,400 for Tier B, and \$5,707,800 for Tier C.

Transit Capital Assistance Grants. Provide \$10,000,000 in 2020-21 to a newly-created continuing SEG appropriation for transit capital assistance grants. Require DOT to administer a transit capital assistance grant program and award grants to eligible applicants for the replacement of public transit vehicles. Specify that DOT would be required to establish criteria for awarding

grants under the newly-created transit capital assistance grant program. This would establish base level funding at \$10,000,000 annually for these grants in future biennia. Define "eligible applicant" to mean a local public body in an urban area that is served by an urban mass transit system incurring an operating deficit. Specify that "public transit vehicle" would mean any vehicle used for providing transportation service to the general public that is eligible for replacement as an eligible mitigation action established under the Volkswagen settlement.

DISCUSSION POINTS

Mass Transit Operating Assistance

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 and farebox revenues, finance the remaining costs.

2. Total funding provided for mass transit operating assistance was \$118,309,200 in 2011, but was reduced by 10% to \$106,478,300 beginning in 2012. In 2015, base funding for the program was increased by 4% to \$110,737,500. The Governor's recommendation would increase operating assistance payments to each tier of mass transit systems by 10% for calendar year 2020 and thereafter to \$121,811,300 which would represent a 2.9% increase over the 2011 funding level (year prior to 2012 aid reduction).

3. However, in 2011 the local paratransit aid program was created and provided \$2,500,000 annually to assist systems with the provision of services required under the Americans with Disabilities Act. Paratransit aid funding offset a portion of the 2012 transit aid reduction for some of the larger transit systems that are required to provide paratransit services. Of the \$2,750,000 in paratransit aid provided to systems in 2018, Milwaukee County received \$1,405,800, Madison received \$490,000, 15 Tier B systems received \$776,300, and six Tier C systems received \$77,900. Paratransit aid would increase from \$2,750,000 to \$3,025,000 annually under the Governor's recommendation.

Funding and Costs

4. Table 1 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 1 are shown on a calendar-year basis and reflect statewide averages. The funding mix for individual systems may vary significantly from these averages. In 2012, state aid was reduced by 10% for each tier of systems, which impacted local systems' service and funding decisions. Subsequently, in 2015, mass transit aid was increased by 4% for each tier of systems. Meanwhile, the state aid percentage has fallen from its 10-year high of 36.6%

in 2011 to 31.9% in 2018, the lowest percentage during the 10-year period. Conversely, the farebox revenue percentage (33.6%) in 2018 was the highest over the 10-year period.

TABLE 1

Transit System Public Funding Sources (in Millions)

Calendar Year	Total Operating Expenses	External Funding				Local Funding			
		Federal	%	State	%	Local*	%	Farebox Revenue	%
2009	\$315.1	\$55.8	17.7%	\$112.6	35.8%	\$56.8	18.0%	\$89.9	28.5%
2010	318.8	57.1	17.9	114.9	36.0	55.5	17.4	91.3	28.6
2011	322.9	56.4	17.5	118.3	36.6	54.7	16.9	93.5	29.0
2012	309.6	56.8	18.3	106.5	34.4	57.9	18.7	88.4	28.6
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

*Primarily property tax revenue.

5. For the larger transit systems, serving populations of 200,000 or more, federal aid is paid directly to the system and is primarily used for capital purposes. For all other systems federal aid may be used to help fund a system's operating deficit. As a result, larger systems receive a greater percentage of their operating costs covered by state aid while smaller Tier B and Tier C systems receive a greater percentage of their operating costs covered by federal aid. The percentage that state and federal aid combined make up of annual operating costs is typically the measure used to indicate the level of external funding provided to each tier of systems and it must be a uniform percentage for each system within a tier. Annual state and federal aid as a percentage of annual transit costs declined for each tier of systems between 2010 and 2018 by the following amounts: from 51.2% to 48.0% for Tier A-1; from 53.2% to 50.8% for Tier A-2; from 58.5% to 54.15% for Tier B; and from 64.5% to 55.9% for Tier C. The growth in costs for transit services in rural areas relative to the more urban systems has resulted in the large decrease in state and federal aid as a percent of costs for Tier C systems.

6. Operational expenses for public transit systems typically increase over time due to higher labor, fuel, insurance and maintenance costs. From 2010 to 2018, the costs of providing transit services has increased: 4.5% (0.6% avg. annual growth) for Tier A-1; 9.8% (1.2% avg. annual growth) for Tier A-2; 7.3% (0.9% avg. annual growth) for Tier B; and 46.8% (4.9% avg. annual growth) for Tier C. 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. For example, according to information provided by DOT, Milwaukee County reduced service due to the 10% state assistance cut in 2011 (annual expenses dropped by 9% between 2010 and 2012). Consequently, Milwaukee County's minimal increase in operating expenses during the 2010-2018

period may be more reflective of funding constraints than service need. Additionally, from 2010 to 2018, rural public transit systems (Tier C) have seen increased demand for service which, combined with inflation, has resulted in a 46.8% increase in expenses. Despite overall population decline in rural Wisconsin counties since 2010, 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. This trend toward increased rural transit ridership in Wisconsin is reflected nationally where rural transit ridership increased 7.8% between 2007 and 2015, while urban ridership increased by 2.3% during the same period. According to DOT, the combination of grant decreases and demand increases have placed a strain on local resources and may threaten the capacity to provide transit service in some rural areas. [Alternative A1]

7. Total ridership on transit systems and shared-ride transit systems in Wisconsin declined from 74.7 million transit trips in 2013 to 57.9 million trips in 2018, representing a 22.5% overall decline over this period. The Milwaukee County transit system accounted for 51% of all transit trips taken in the state in 2018 and experienced a 32.0% decrease in ridership between 2013 and 2018. Total transit trips in Wisconsin, excluding Milwaukee County, decreased 9.2% from 2013 to 2018. Comparatively, nationwide the number of bus transit trips decreased by 12.7% from 2013 to 2017. Commonly cited reasons for the decline in national transit ridership since the end of the recession are cuts to transit service, increase transit fares, relatively low gas prices, increase use of ride-hailing services (such as Uber and Lyft), and economic expansion, which has precipitated an increase in both the number of vehicles per capita and the number of miles driven per capita.

8. DOT's 2015-17 budget request indicated that the 2012 state aid reductions, combined with limits on the amounts that local governments can levy in property tax for the service they provide, have resulted in transit service reductions, fare increases for many systems, and a decline in overall statewide ridership. The request recommended a \$54.0 million biennial increase in transit funding, but this request was not included in the then Governor's budget recommendation. In requesting these funds, DOT recognized the Transportation Finance and Policy Commission's 2013 recommendations to increase funding for transit assistance.

Funding Options

9. 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 increase (the April payment) would be paid in the corresponding fiscal year. If annual increases are provided, the remaining portion of the calendar year increase would have to be funded in the next fiscal year, which would increase the future commitments in the next biennium. This future commitment is avoided if any funding increase is provided in 2020, with no additional increase in 2021, as currently provided in the Governor's recommendation to increase the 2020 calendar year distribution amount by 10%. The Committee could instead choose to increase mass transit operating aids by a lesser amount, as specified in Table 2. [Alternative A2 a through A2 d]

TABLE 2**Potential Funding Changes**

<u>2020 Change</u>	<u>Calendar Year Aid Distribution</u>		<u>SEG Change to Base</u>	
	<u>2020</u>	<u>2021</u>	<u>2019-20</u>	<u>2020-21</u>
2.0%	\$2,214,800	\$2,214,800	\$553,700	\$2,214,800
4.0	4,429,500	4,429,500	1,107,400	4,429,500
6.0	6,644,300	6,644,300	1,661,100	6,644,300
8.0	8,859,000	8,859,000	2,214,800	8,859,000
10.0 (Gov.)	11,073,800	11,073,800	2,768,500	11,073,800

10. Under current law revenues and base level appropriations, the 2019-21 biennium ending balance in the transportation fund is estimated at \$82.1 million. Any decision to provide additional funding for mass transit assistance at this time would have to take into account the available fund balance, any additional revenues authorized, as well as other transportation funding demands.

11. The Governor's 2019-21 biennial recommendations would provide sufficient, estimated revenue to fund the transit aid increase in the bill, as well other proposed, above-base budget state and local transportation highway programming. However, current law, transportation fund revenues available for above-base transportation programming are limited. Over the past decade, there has been no significant increase in ongoing revenues to the fund, while the state has continued to authorize and issue significant amounts of transportation fund-supported bonds. Given the demands on both state and local transportation infrastructure, if no additional transportation fund revenues are approved, existing state resources would not be sufficient to meet both state and local needs. Consequently, the policy discussion that confronts the state is whether the state can afford to increase state funding for transit systems at this time without additional transportation fund revenues. [Alternative A3]

Transit Capital Assistance Grants

12. State transit systems receive some 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 operating 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. 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.

13. 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.

14. "Useful life" is a measure that the FTA and transit agencies use to track the performance of revenue vehicles (rolling stock) and to estimate the number of years that a vehicle can be in service and still be in a state of good repair. Useful life considers the length of time that an asset is cost effective to operate. In Wisconsin, the percentage of public transit revenue vehicles within useful life standards decreased from 83.3% in 2011 to 76.4% in 2016, indicating an aging rolling stock and a need to increase the speed at which older vehicles are replaced.

15. According to the DOT Transit Asset Management (TAM) Plan, which covers most rural, small urban and specialized transit systems, the majority of the transit vehicles on the road have met or surpassed their useful life and are in need of replacement. For small urban and rural systems, Table 3 shows that there is a particular need to replace smaller transit vehicles such as autos and minivans which exceed their useful life, on average, by 3.5 years and 2.8 years respectively. As noted, federal funding may be used by these systems for vehicle replacement, but funding has not kept up with need as indicated by the decrease in rolling stock within useful life standards.

TABLE 3

Average Ages of Vehicle Types, Small Urban and Rural Systems, 2018

	<u>Count</u>	<u>Total Age</u>	<u>Average Age</u>	<u>Useful Life Age</u>
Auto	78	582	7.5	4
Minivan	482	2,815	5.8	4
Minibus	121	772	6.4	7
Cutaway	522	3,645	7.0	7
Bus	158	1,804	11.4	12

16. Currently, Wisconsin does not have a 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. The Governor's recommendation would provide funding of \$10,000,000 SEG in 2020-21 to fund a newly created transit capital assistance grant program administered by DOT. This would establish a base funding level going forward that would fund \$20.0 million in transit capital grants each biennium. [Alternative B1]

17. 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. 2017 Wisconsin Act 59 established the transit capital assistance grant program to competitively award up to \$32 million of Volkswagen Trust funds to replace eligible public transit vehicles. The 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. On March 8, 2019, DOA issued intent to award letters to 10 applicants for \$32 million in transit capital assistance grants to replace a total of 58 buses. The state expects to receive an additional \$25 million in settlement funds in the 2019-21 biennium. The Governor's recommendations would require DOA to allocate 60% of available settlement funding (\$15 million) for replacement of public transit vehicles, and 40% of available settlement funding (\$10 million) for installation of charging stations for electric vehicles. Further, the Governor's recommendations would allow the DOA Secretary to adjust the allocation of settlement funds if necessary.

18. Under the bill, 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.

19. 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 needs among transit systems statewide. The Committee could choose to modify the Governor's recommendation 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 B2]

20. As provided under the bill, the state would be concurrently operating two separate transit capital programs administered by two different agencies. One concern is that to the extent that these programs address similar policy goals, having two separate programs may not be the most efficient method to deploy capital funding. Given that the current law transportation fund revenues available for above-base transportation programming are limited, and given that there is an existing transit capital grant program funded from VW settlement proceeds, the Committee may want to instead focus bus replacement efforts within existing VW settlement resources at this time. [Alternative B3]

ALTERNATIVES

A. Mass Transit Operating Assistance Funding

1. Approve the Governor's recommendation to provide \$2,768,600 SEG in 2019-20 and \$11,073,800 in 2020-21 to fund a 10% increase in mass transit operating assistance to each tier of mass transit systems for calendar year 2020 and thereafter. Set the statutory calendar year distribution amounts for 2020 and thereafter at \$70,613,300 for Tier A-1, \$18,554,800 for Tier A-2, \$26,935,400

for Tier B, and \$5,707,800 for Tier C.

ALT A1	Change to	
	Base	Bill
SEG	\$13,842,400	\$0

2. Provide one of the following SEG funding increases in calendar year 2020 and 2021, and set the annual distribution for 2020 and thereafter among the tiers of systems accordingly.

	Percent Change	Calendar Year Aid Increase		SEG Change to Base		SEG Change to Bill	
		2020	2021	2019-20	2020-21	2019-20	2020-21
a.	2.0	2,214,800	2,214,800	553,700	2,214,800	-2,214,900	-8,859,000
b.	4.0	4,429,500	4,429,500	1,107,400	4,429,500	-1,661,200	-6,644,200
c.	6.0	6,644,300	6,644,300	1,661,100	6,644,300	-1,107,500	-4,429,500
d.	8.0	8,859,000	8,859,000	2,214,800	8,859,000	-553,800	-2,214,800

3. Take no action (no change to base level SEG funding would be provided for DOT's mass transit operating assistance program).

ALT A3	Change to	
	Base	Bill
SEG	\$0	-\$13,842,400

B. Transit Capital Assistance Grants

1. Approve the Governor's recommendation to provide \$10,000,000 SEG in 2020-21 to a newly-created continuing appropriation for a newly created transit capital assistance grant program administered by DOT.

ALT B1	Change to	
	Base	Bill
SEG	\$10,000,000	\$0

2. In addition to approving the Governor's recommendation under 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.]

3. Take no action. Under this alternative, the Committee could still provide the Governor's recommended funding for transit capital grants, or another amount, in subsequent action (Miscellaneous Appropriations -- Volkswagen Settlement).

ALT B3	Change to	
	Base	Bill
SEG	\$0	- \$10,000,000

Prepared by: Ryan Horton