



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #905

General Transportation Aid -- Funding Level (DOT -- Local Transportation Aid)

[LFB 2001-03 Budget Summary: Page 653, #1]

CURRENT LAW

Base funding for general transportation aid is \$348,521,000 SEG (\$264,461,500 for municipalities and \$84,059,500 for counties). Municipalities receive the greater of the amounts calculated under the share of costs and mileage aid rate formulas. The mileage aid rate is set at \$1,704 for 2000 and thereafter. Counties receive aid based on the share of costs formula.

GOVERNOR

Increase funding for general transportation aids as follows:

County Aid. Provide \$2,269,600 SEG in 2001-02 and \$4,859,500 SEG in 2002-03 to provide a total of \$86,329,100 in 2001-02 and \$88,919,000 in 2002-03. Set the calendar year distribution at \$88,598,700 for calendar year 2002 and \$89,239,300 for calendar year 2003 and thereafter. This represents a 5.4% increase for calendar year 2002 and a 0.7% increase for calendar year 2003.

Municipal Aid. Provide \$6,611,500 SEG in 2001-02 and \$13,334,400 SEG in 2002-03 to provide a total of \$271,073,000 in 2001-02 and \$277,795,900 in 2002-03. Set the calendar year distribution at \$277,684,500 for calendar year 2002 and \$277,907,200 for calendar year 2003 and thereafter. This represents a 5.0% increase for calendar year 2002 and a 0.1% increase for calendar year 2003.

Establish the mileage aid rate at \$1,747 for calendar year 2001 and \$1,790 for calendar year 2002 and thereafter. The calendar year 2002 mileage aid rate represents a 5.0% increase

over the current law mileage aid rate of \$1,704. Repeal the statutory references to previous calendar year mileage aid rate amounts.

DISCUSSION POINTS

1. General transportation aids are paid to local governments to assist in the maintenance, improvement and construction of local roads. The current transportation aid formula was created in 1988. Through 1993, all municipalities and counties were paid from the same appropriation. Effective in 1994, separate appropriations were created for counties and municipalities.

2. Under the 1999-01 biennial budget, the general transportation aid formula was suspended for calendar year 2001 aid payments. Rather, each municipality will receive a 2001 aid payment that is equal to the amount received under the transportation aid formula for calendar year 2000. Under current law, transportation aid payments would again be based on the formula amount for each county and municipality for calendar year 2002 and thereafter.

3. General transportation aid is calculated and paid on a calendar year basis, with quarterly payments on the first Monday of January, April, July and October. The bill would fully fund the last half of the calendar year 2001 payments and provide a 5.4% increase for calendar year 2002 and a 0.7% increase for calendar year 2003 for counties and a 5.0% increase in calendar year 2002 and a 0.1% increase in calendar year 2003 for municipalities.

4. In the past, the same percentage increase has been provided to both counties and municipalities. The Governor's Executive Budget Book indicates that the difference in the percentage increases in aid between counties and municipalities reflects an intent to provide a portion of the percentage increase in funding that would have otherwise been provided for municipal transportation aids (\$529,000 in 2001-02 and \$1,954,200 in 2002-03) to the local road improvement program for discretionary grants to towns, cities and villages.

5. DOA indicates that additional funding was provided for LRIP discretionary projects, as opposed to general transportation aid, in order to target funds for capital improvements. The shift from general transportation aid to LRIP was done for municipalities, but not counties, because counties have received smaller increases in general transportation aid over the last 13 years. Between 1988 and 2001, county general transportation aid payments increased by 52%, while municipal general transportation aid payments increased by 91%. Since 1995, however, aid to both municipalities and counties has increased by 26%.

6. Despite the fact that calendar year 2001 aid payment amounts have been established based on the funding levels enacted in the 1999-01 biennial budget, the bill would adjust the calendar year 2001 mileage aid amount. Because the general transportation aid formula would continue to be suspended for calendar year 2001, with aid payments equaling the amounts received under the transportation aid formula for calendar year 2000, an increase in the 2001 mileage aid rate would have no effect on calendar year 2001 aid payments. In addition, in order to provide an equal increase to municipal aid recipients on the rate per mile and share of cost components of the

formula, the mileage aid rate is generally increased by same percentage that the total municipal aid funding amount is increased. Under the bill, the calendar year 2002 mileage aid rate would increase to \$1,790, which is 5.0% greater than the current law mileage aid rate of \$1,704. This equals the increase proposed for total municipal aid. However, despite providing a 0.1% increase in general transportation aid funding for municipalities in 2003, the bill would not provide an increase in the mileage aid rate in 2003. Adjusting the increases to the mileage aid rates so that the increases begin in 2002, rather than 2001, and providing a 0.1% increase in the rate to \$1,791 per mile in 2003, would make the increases consistent with prior decisions regarding the mileage aid rate.

7. On March 26, the Department of Transportation indicated a number of changes to the Governor's biennial budget bill that could be made to more accurately reflect the Department's original funding goals for the general transportation aid program. In preparing the Department's budget request, funding for the general transportation aid program was calculated on a fiscal year basis, rather than a calendar year basis, which results in counties and municipalities receiving the bulk of the proposed increase in funding in the first calendar year of the biennium with only a small increase in the second calendar year. The Department indicates that local governments prefer a more equal or steady increase in calendar year aid amounts because such increases provide stability and predictability of state aid for local road systems, which assists local units of government in budgeting and planning their work.

8. The Department's intent, modified to reflect the Governor's recommendation to provide lower increases for municipal aid, would provide a 2.7% increase in calendar year 2002 and a 3.0% increase in calendar year 2003 for counties and a 2.5% increase in each calendar year for municipalities, along with a mileage aid rate increase of 2.5% each year. Such increases would set the calendar year distribution amounts at \$86,329,100 in 2002 and \$88,919,000 in 2003 for counties and at \$271,073,000 in 2002 and \$277,849,900 in 2003 for municipalities. The mileage aid rate would increase to \$1,747 in 2002 and \$1,790 in 2003. The amount of above base funding necessary under DOT's intended increases in the calendar year distributions for both counties and municipalities is \$4,440,600 in 2001-02 and \$13,564,600 in 2002-03. Compared to the bill, this would represent decreases of \$4,440,500 in 2001-02 and \$4,629,300 in 2002-03.

9. Based on a forecast of the economy by Standard and Poor's DRI, general inflation is projected to be 2.1% in 2002 and 1.7% in 2003. The amount of above base funding necessary to provide inflationary increases in the calendar year distributions for both counties and municipalities is \$3,659,500 in 2001-02 and \$10,343,600 in 2002-03. Compared to the bill, this would represent decreases of \$5,221,600 in 2001-02 and \$7,850,300 in 2002-03. The mileage aid rate would increase to \$1,740 in 2002 and \$1,770 in 2003 under this alternative.

10. During 2000, the most recent year the formula was used, counties received aid at 27.8% of eligible costs and municipalities received aid at 22.0% of eligible costs. Under the bill, it is estimated that counties' cost-based aid rate would decrease to 26.8% in 2002 and 25.1% in 2003, while municipalities' cost-based aid rate would decrease to 21.5% in 2002 and 21.0% in 2003. The following table shows the estimated share of costs for calendar year 2002 at various percentage increases in funding and mileage aid rates.

<u>Percentage Increase in Aid</u>	<u>Estimated Cost-Based Aid Rate in 2002</u>	
	<u>Counties</u>	<u>Municipalities</u>
1%	24.5%	20.1%
2	25.1	20.5
3	25.7	20.8
4	26.1	21.2
5	26.6	21.5
6	27.0	21.8

11. The share of costs funded under the cost-based aid rate has been relatively stable since 1994, ranging from 26.6% to 28.2% for counties and 20.8% to 22.5% for municipalities. The following table lists the cost-base aid rates for counties and municipalities from 1994 through 2000, the last year the formula was used.

<u>Calendar Year</u>	<u>Annual Cost-Based Aid Rate</u>	
	<u>Counties</u>	<u>Municipalities</u>
1994	27.7%	22.2%
1995	27.6	22.2
1996	27.0	21.4
1997	26.6	20.8
1998	28.2	22.5
1999	27.0	21.3
2000	27.8	22.0

12. One issue to consider when selecting a funding policy is whether a cost-sharing percentage should control appropriation decisions or whether appropriation decisions should be made based on overall budgetary goals, with the cost-sharing percentage changing from year to year based on these goals.

13. General transportation aid funds are provided on a calendar year basis, with quarterly aid payments made in January, April, July and October. Therefore, only one half of any calendar year 2003 increase would be paid in 2002-03. The remaining portion of the calendar year 2003 increase would be funded in the next biennium. The following table indicates the annual funding commitment in the next biennium under various increases in the combined county and municipal calendar year distributions.

**Future Year General Transportation Aid Commitments
Under Various Percentage Increases for Counties and Municipalities**

Calendar Year Distribution Increase <u>2002/2003</u>	Future Funding <u>Commitment</u>
1%/1%	\$1,760,000
2.1%/1.7% (Inflation)	3,024,600
2%/2%	3,554,900
DOT's Recommendation	4,683,300
3%/3%	5,384,600
4%/4%	7,249,200
5%/5%	9,148,600
6%/6%	11,083,000

14. State and federal funding increases for local road aid programs to assist local governments in the maintenance, improvement and construction of local roads have outpaced increases in inflation in recent years. However, local road program funding has not kept pace with the funding increases provided for the major highway development, state highway rehabilitation and mass transit programs, due in large part to substantial increases in federal funding that the state has dedicated to these programs. The following table compares the percentage increases in state and federal funding for various transportation programs from 1996-97 through 2002-03.

**Percentage Increase in State and Federal Funding
for Various Transportation Programs
(Fiscal Years 1997-2003)**

<u>Program</u>	<u>Governor</u>
Major Highway Development*	46.1%
Mass Transit Aid	45.7
State Highway Rehabilitation**	44.1
Local Road Programs***	29.8
State Highway Maintenance	23.3

* Adjusted to reflect the amount that the Governor intended to provide in 2002-03, which is less than the amount actually in the bill by \$4,529,100.

** Does not include funding provided in a separate appropriation for the reconstruction of the Marquette Interchange. If this funding were included, the increase for the rehabilitation program would be 68.7%.

*** Includes general transportation and connecting highway aid, local roads improvement program and local bridge and highway improvement assistance.

15. Fuel is a significant cost component associated with providing local general transportation services. For example, fuel is needed to operate machinery and vehicles for such activities as snow removal, mowing roadsides, grading roads and shoulders, applying pavement

markings and providing for the policing of local roads. The recent increases in fuel costs have outpaced general inflation and have resulted in an increase in the costs for local governments to provide the same level of service. Providing a percentage increase in funding that is greater than forecasted inflation would assist local governments in funding these higher fuel costs.

ALTERNATIVES TO BILL

1. Approve the Governor’s recommendation to provide \$2,269,600 SEG in 2001-02 and \$4,859,500 SEG in 2002-03 to fund a 5.4% increase for calendar year 2002 and a 0.7% increase for calendar year 2003 for counties and \$6,611,500 SEG in 2001-02 and \$13,334,400 SEG in 2002-03 to provide a 5.0% increase for calendar year 2002 and a 0.1% increase for calendar year 2003 for municipalities. Set the calendar year distribution at \$88,598,700 for 2002 and \$89,239,300 for 2003 and thereafter for counties and \$277,684,500 for 2002 and \$277,907,200 for 2003 and thereafter for municipalities. Establish the mileage aid rate at \$1,747 for calendar year 2001 and \$1,790 for calendar year 2002 and thereafter.

2. Modify the Governor's recommendation by establishing the mileage aid rate at \$1,790 (a 5.0% increase) for calendar year 2002 and \$1,791 (a 0.1% increase) for calendar year 2003 and thereafter.

3. Modify the Governor's recommendation by deleting \$5,221,600 SEG in 2001-02 and \$7,850,300 SEG in 2002-03 to fund increases in the calendar year distributions for both counties and municipalities equal to 2.1% in 2002 and 1.7% in 2003 (the projected increases in the consumer price index). In addition, set the calendar year distribution for counties at \$85,824,700 for 2002 and \$87,283,700 for 2003 and thereafter and for municipalities at \$270,015,200 for 2002 and \$274,605,500 for 2003 and thereafter. Establish the mileage aid rate at \$1,740 for calendar year 2002 and \$1,770 for calendar year 2003 and thereafter.

Alternative 3	SEG
2001-03 FUNDING (Change to Bill)	- \$13,071,900

4. Modify the Governor's recommendation by deleting \$4,440,500 SEG in 2001-02 and \$4,629,300 SEG in 2002-03 to fund increases in the calendar year distributions of 2.7% in 2002 and 3.0% in 2003 for counties and 2.5% in both 2002 and 2003 for municipalities. In addition, set the calendar year distribution for counties at \$86,329,100 for 2002 and \$88,919,000 for 2003 and thereafter and for municipalities at \$271,073,000 for 2002 and \$277,849,900 for 2003 and thereafter. Establish the mileage aid rate at \$1,747 for calendar year 2002 and \$1,790 for calendar year 2003 and thereafter.

Alternative 4	SEG
2001-03 FUNDING (Change to Bill)	- \$9,069,800

5. Modify the Governor's recommendation by providing annual general transportation aid increases (SEG) for 2002 and 2003 at one of the following percentages. Set the county and municipal distributions, establish the mileage aid rate and change the general transportation aid appropriations as shown below:

	% Annual Increase in Aid	Calendar Year County Distribution		SEG Change to Bill	
		2002	2003	2001-02	2002-03
a.	1.0%	\$84,900,100	\$85,749,100	-\$1,849,300	-\$3,594,400
b.	2.0	85,740,700	87,455,500	-1,429,000	-2,320,900
c.	3.0	86,581,300	89,178,700	-1,008,700	-1,039,000
d.	4.0	87,421,900	90,918,800	-588,400	251,400
e.	5.0	88,262,500	92,675,600	-168,100	1,550,100
f.	6.0	89,103,100	94,449,300	252,200	2,857,200

	% Annual Increase in Aid	Calendar Year Municipal Distribution		Calendar Year Rate Per Mile		SEG Change to Bill	
		2002	2003	2002	2003	2001-02	2002-03
g.	1.0%	\$267,106,100	\$269,777,200	\$1,721	\$1,738	-\$5,289,200	-\$9,354,200
h.	2.0	269,750,700	275,145,700	1,738	1,773	-3,966,900	-5,347,700
i.	3.0	272,395,300	280,567,200	1,755	1,808	-2,644,600	-1,314,600
j.	4.0	275,040,000	286,041,600	1,772	1,843	-1,322,200	2,744,900
k.	5.0	277,684,600	291,568,800	1,789	1,878	100	6,830,800
l.	6.0	280,329,200	297,149,000	1,806	1,914	1,322,400	10,943,200

6. Maintain current law. Base level funding would be provided in the 2001-03 biennium.

Alternative 6	SEG
2001-03 FUNDING (Change to Bill)	-\$27,075,000

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