



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #739

### **Local Roads Improvement Program (DOT -- Local Transportation Projects)**

[LFB 2005-07 Budget Summary: Page 479, #8]

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#### **CURRENT LAW**

The local roads improvement program (LRIP) provides grants of state funds on a biennial basis for capital improvements on existing county, town, and municipal (city or village) roads and for feasibility studies for such improvements. Grants may cover up to 50% of the total project cost, with the balance being provided by the local recipient.

The program is divided into a discretionary grant component and a formula-based component, both of which are further divided into county, town, and municipal subcomponents. Under the discretionary component, the Department is required to allocate the following amounts for discretionary projects in each biennium: (a) \$10,500,000 for county highway discretionary projects; (b) \$2,000,000 for municipal street discretionary projects; and (c) \$1,500,000 for town road discretionary projects. Committees composed of representatives of these governments choose the projects that receive funds each biennium.

The funds not set aside for the discretionary component are allocated in the formula-based component. By statute, 43% of the formula-based amounts are allocated to county projects, while towns and municipalities are each allocated 28.5%. Within each of these formula subcomponents, funds are distributed on the basis of proportionate mileage and population, with varying weights given to these factors for each of the three subcomponents. Towns and municipalities with a population under 20,000 must share an entitlement with the other like governments within their county. In both cases, projects are chosen by a committee of representatives of the governments. Counties and municipalities over 20,000 in population receive their own entitlement of funds based on the formulas.

Base funding for the program is \$22,669,800 SEG and \$22,669,800 SEG-L (the local match).

## GOVERNOR

Provide \$453,400 SEG and \$453,400 SEG-L in 2005-06 and \$915,900 SEG and \$915,900 SEG-L in 2006-07 for the local roads improvement program.

## DISCUSSION POINTS

1. The additional funding in the bill for the local roads improvement program would provide 2% annual increases for the program, relative to the total 2004-05 appropriation. Since the bill would not increase the amounts that the Department is required to set aside for the discretionary component of the program, these increases would be distributed only in the formula-based component. Therefore, the bill has the effect of increasing the size of the formula-based component by 2.9% annually, while there is no increase for the discretionary component.

2. The local roads improvement program was created by the 1991-93 biennial budget to provide a source of state funds for local road construction projects. Unlike the larger general transportation aid program, which reimburses local governments for all types of transportation expenditures, LRIP funds may only be used for capital improvements to existing roads. To be eligible for assistance under the program, a project must have a projected design life of at least ten years.

3. The funds provided under the program are a fairly small percentage of the total amount spent by local governments for road construction. The following table compares 2003 local road construction expenditures (by type of government), with the annual amount of LRIP funds distributed to each type of government in 2002-03 (half of the 2001-03 biennial distribution). The 2003 local road construction data is from local government expenditure reports filed with the Department of Revenue (DOR) and is the latest year of data currently available. The LRIP funds shown in the table include both discretionary and formula components. It should be noted that the percentages shown in the final column understate somewhat the percentage of LRIP-eligible expenditures that are paid with LRIP funds since the DOR expenditure data include expenditures on some things that are not eligible under LRIP. For instance, the construction of new roads and the purchase and installation of traffic signals and signs are included in the total, but are not eligible for LRIP funds. Nevertheless, the table demonstrates that the program's overall effect on local road construction expenditures is small compared to total construction spending.

<u>Type of Government</u>	<u>2003 Local Road Construction Expenditures</u>	<u>2002-03 LRIP Funds</u>	<u>LRIP as a Percentage of Expenditures</u>
Counties	\$147,761,000	\$11,673,500	7.9%
Cities and Villages	281,817,700	5,389,500	1.9
Towns	<u>89,522,300</u>	<u>5,152,800</u>	<u>5.8</u>
Total	\$519,101,000	\$22,215,800	4.3%

4. Although it would be difficult to quantify the amount, some of the effect of the program may be to substitute state funds for funds from their own sources that local governments would make on local road improvements even in the absence of the program. While LRIP funds can cover up to 50% of a project's cost, the actual percentage is typically much lower. For the 2003-05 biennium, state LRIP funds provided only 24.3% toward the total cost of LRIP projects under the formula-based component of the program and 27.1% toward the total costs under the discretionary component.

5. The relatively high local matching percentage on LRIP-funded projects is due in part to a strategy among some project selection committees to divide the available funds among multiple recipients. For instance, rather than awarding larger grants for a small number of projects, the committees of town or municipal representatives that determine which projects are funded in each county distribute the funds in smaller amounts to a larger number of towns or municipalities.

6. In the event of an increase in the total amount of funds available to a local government from the state, regardless of the stated purpose of those funds, local governments will likely respond in a variety of ways. A reduction in own-source revenue (primarily property tax levy), an increase in spending on the activity for which the funds are provided, or an increase in spending on other activities are all possible responses. In many cases, a combination of these responses is likely. While local roads improvement program funds may reduce the amount of local funds spent on projects that would occur without the state assistance, the program may also result in an increase in road improvement spending, resulting in better-quality local roads.

7. Some may consider modest property tax relief a valid goal of the local roads improvement program. That is, since local roads are used by both local residents and nonresidents, the total cost of building and maintaining those roads should not be borne exclusively by local property tax payers. The relatively modest increases in the size of the formula-based component provided by the bill may not induce significant additional capital expenditures on local roads, but the additional funds may provide a small measure of property tax relief.

8. It could also be argued that while the larger general transportation aid program serves to reimburse local governments for a portion of their transportation costs to reduce the burden paid by the local property tax payers for local transportation costs, the primary purpose of the local roads improvement program is to improve the quality of local roads. Given the size of the program in relation to the total amount of local spending on road construction, it would be difficult to ensure that any increase in funding will lead directly to additional local road improvements, but it may be possible to provide the additional funding in a way that increases the likelihood of this outcome. Instead of providing the funds for the formula-based component, as under the bill, the additional funding could instead be used to increase the amount set aside for the discretionary programs. Since the projects funded under the discretionary component generally have a higher total cost than projects funded under the formula-based component, the LRIP funds provided for discretionary projects may be more instrumental in inducing additional improvements to be made. This may be particularly true in the discretionary subcomponents for municipal and town projects, where the percentage of the total project cost paid with state funds is typically closer to 50% than in

the county subcomponent. The higher state share on these projects suggests that the cost to do the project without state assistance would be higher for the local government (compared to projects with a lower state percentage) and, therefore, would be more likely to be deferred without that assistance.

9. If the funding increases provided by the bill were allocated to the discretionary component of the program, they would amount to increases of 6.5% in 2005-06 and 6.2% in 2006-07 for that component.

10. If it is decided to allocate the increases provided for the program to the discretionary component, many local governments would not receive any benefit from the increases. Instead, the funds would be allocated in larger amounts to a smaller number of beneficiaries.

11. An alternative that directs the Department to allocate the additional funding to the discretionary component of the program could be structured to provide these increases to each subcomponent (county, municipality, and town) in proportion to the current shares that each type of government has of the discretionary program. In this case, 75% of the additional funds would be added to the county allocation, 14.3% would be added to the municipal allocation, and 10.7% would be added to the town allocation.

12. Instead of allocating the increase in proportion to the current discretionary allocations (as outlined in the previous point), the amounts could be divided between the discretionary subcomponents in the same proportion that the formula-based funds are currently divided between the types of government. In this case, counties would receive 43% of the additional funds, while municipalities and towns would each receive 28.5%.

13. Another alternative would be to allocate the increases in equal amounts to the smaller two discretionary components. A case could be made for this alternative on the grounds that the county discretionary program is already large enough that over one-half of the counties receive a grant each biennium, while only about 10 projects each are approved under the town and municipal discretionary programs.

14. The following table shows the amounts that would be allocated biennially to each discretionary subcomponent under the alternatives outlined under Points #11, #12, and #13. It is assumed that the annual allocations for the discretionary components would be adjusted to distribute the biennial increase equally over both years, rounded to the nearest \$100. The Committee could allocate the funding increases provided for the program to the discretionary subcomponents as shown in this table if the Governor's recommended level of funding is adopted, or could apply either of these two allocation methods to a different funding increase.

<u>Discretionary Subcomponent</u>	<u>Current Biennial Allocation</u>	<u>Allocation Under Alternative:</u>		
		<u>Point # 11</u>	<u>Point # 12</u>	<u>Point # 13</u>
County	\$10,500,000	\$11,527,000	\$11,088,800	\$10,500,000
Municipality	2,000,000	2,195,800	2,390,300	2,684,700
Town	1,500,000	1,646,500	1,890,300	2,184,700

15. In addition to the increases provided for the local roads improvement program, the bill would also provide increases to several other transportation programs for local governments, including general transportation aid, mass transit aid, elderly and disabled aid, harbor assistance, and the airport improvement program. However, the bill would generally provide larger increases, on a percentage basis, for the state highway programs. For instance, while the major local aid and assistance programs would be increased by 2.0% annually, the state highway rehabilitation program would be increased by 7.0% in 2005-06 and 3.2% in 2006-07, while the major highway development program would be increased by 2.1% in 2005-06 and 22.5% in 2006-07.

16. The increases for both local transportation aid and state highway programs are made possible to some extent by increases to vehicle registration and titling fees and by the use of long-term bonding for the Marquette Interchange reconstruction project. If a decision is made to modify the fee and bonding provisions in the bill, the program funding increases may need to also be modified.

17. The following table shows the funding SEG amounts associated with several annual percentage rate increases for the local roads improvement program, calculated on the total program size.

<u>Annual % Increase</u>	<u>Change to Base</u>		<u>Change to Bill</u>	
	<u>2005-06</u>	<u>2006-07</u>	<u>2005-06</u>	<u>2006-07</u>
1.0%	\$226,700	\$455,700	-\$226,700	-\$460,200
2.0*	453,400	915,900	0	0
3.0	680,100	1,380,600	226,700	464,700
4.0	906,800	1,849,900	453,400	934,000
5.0	1,133,500	2,323,700	680,100	1,407,800
6.0	1,360,200	2,802,000	906,800	1,886,100

\*Funding level under the Governor's bill.

## ALTERNATIVES

### A. Funding Level

1. Adopt the Governor's recommendation to provide \$453,400 SEG and \$453,400 SEG-L in 2005-06 and \$915,900 SEG and \$915,900 SEG-L in 2006-07 for the local roads improvement program.

2. Modify the funding level provided in the bill by adopting changes in SEG and SEG-L funding as shown in the following table to provide the corresponding percentage increases for the program.

Annual % Increase	Change to Bill	
	2005-06	2006-07
a. 1.0%	-\$226,700	-\$460,200
b. 3.0	226,700	464,700
c. 4.0	453,400	934,000
d. 5.0	680,100	1,407,800
e. 6.0	906,800	1,886,100

3. Delete provision.

<u>Alternative A3</u>	<u>SEG-L</u>	<u>SEG</u>	<u>TOTAL</u>
<b>2005-07 FUNDING</b> (Change to Bill)	-\$1,369,300	-\$1,369,300	-\$2,738,600

**B. Allocation of Funding Increase**

1. Adopt the Governor's recommendation to apply the funding increase to the formula-based component of the program (no change to the discretionary set-asides).

2. Modify the amounts that DOT is required to distribute annually for the discretionary subcomponents of the program in order to allocate the increases provided for the program under the above alternatives in proportion to the current allocation of discretionary program funds among the subcomponents, as outlined under Point #11 (75% county discretionary projects, 14.3% municipal discretionary projects, and 10.7% town discretionary projects).

3. Modify the amounts that DOT is required to distribute annually for the discretionary subcomponents of the program in order to allocate the increases provided for the program under the above alternatives in proportion to the current allocation of funds in the formula-based component of the program, as outlined under Point #12 (43% county discretionary projects and 28.5% each for municipal and town discretionary projects).

4. Modify the amounts that DOT is required to distribute annually for the discretionary subcomponents of the program in order to allocate the increases provided for the program under the above alternatives in equal amounts to the municipal and town subcomponents of the program, as outlined under Point #13.

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