



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #780

Funding for Selected Local Transportation Assistance Programs (DOT -- Local Transportation Assistance)

Bill Agency

[LFB 2007-09 Budget Summary: Pages 540 and 541, #8, #9, and #11]

CURRENT LAW

The Department administers several programs that provide funding to local governments for transportation. These programs can generally be divided into two categories: transportation aid programs and transportation assistance programs. Transportation aid programs typically provide funding based on formulas and local governments have limited restrictions in how to spend that aid. In contrast, transportation assistance programs, which are the focus of this paper, provide funding for specifically identified capital improvement projects. This paper discusses funding for the four largest local transportation assistance programs: (a) the local roads improvement program; (b) the aeronautics assistance program; (c) the local transportation facilities assistance program; and (d) the local bridge improvement assistance program.

The local roads improvement program (LRIP) provides grants for capital improvements on existing county, municipal (city and village), and town roads and for feasibility studies for such improvements. Grants may cover up to 50% of the total project cost. The program has two SEG appropriations, one for providing entitlements on a formula basis and one for making grants on a discretionary basis (competitive grants, by application). Each of these two components is further divided into subcomponents for counties, municipalities, and towns. Base funding for the entitlement component of the program is \$16,585,700 SEG and \$16,585,700 SEG-L (local match) and base funding for the discretionary component is \$7,000,000 SEG and \$7,000,000 SEG-L.

The aeronautics assistance program provides funding from SEG and FED appropriations for airport improvement projects. Local governments are generally responsible for the operation of airports, but projects funded under the aeronautics assistance program are chosen and managed by DOT. Local governments that receive assistance for a project are required to pay a portion of the cost, which varies from 5% to 20%, depending upon the type of project and whether federal funds are used. Base funding for the program is \$12,744,200 SEG, \$74,000,000 FED, and \$42,000,000 SEG-L.

DOT's FED appropriation for local transportation facility improvement assistance funds several programs that are collectively referred to as the surface transportation program. Funding under these programs is distributed to local governments based on population and is used for capital projects on local roads that are eligible for federal aid. The projects, which require the recipient local government to pay at least 20% of the cost, are generally larger than projects done under the local roads improvement program. Base funding for the program is \$70,391,300 FED and \$17,597,800 SEG-L.

The local bridge improvement assistance program distributes funding based on a bridge condition formula. Funding is distributed to counties, which are responsible for making decisions on the projects (on municipal, town, or county highways within the county) that are funded. Base funding for the program is \$24,438,300 FED, \$8,527,500 SEG, and \$8,780,400 SEG-L.

GOVERNOR

Provide \$331,700 SEG and \$331,700 SEG-L in 2007-08 and \$670,000 SEG and \$670,000 SEG-L in 2008-09 for the local roads improvement program for making grants under the entitlement component of the program.

Provide \$140,000 SEG and \$140,000 SEG-L in 2007-08 and \$282,800 SEG and \$282,800 SEG-L in 2008-09 for the discretionary grant component of the local roads improvement program. Set these statutory allocations under the program as follows: (a) \$5,355,000 in 2007-08 and \$5,567,100 in 2008-09 and annually thereafter for county projects; (b) \$1,020,000 in 2007-08 and \$1,060,400 in 2008-09 and annually thereafter for municipal projects; and (c) \$765,000 in 2007-08 and \$795,300 in 2008-09 and annually thereafter for town projects.

Provide \$252,200 SEG in 2007-08 and \$509,500 SEG in 2008-09 for the aeronautics assistance program.

DISCUSSION POINTS

1. The funding in the bill would provide 2.0% annual funding increases for the local roads improvement programs and for the SEG-funded portion of the aeronautics assistance

program, but would not provide additional funding for the local transportation facility assistance or local bridge assistance programs. Since local governments receive regular transportation assistance from a package of different programs, it could be argued that providing an inflationary increase for some programs, while leaving the others at the base level, would effectively decrease the real level of state transportation assistance to local governments.

2. Providing 2.0% annual increases for the local transportation facility improvement assistance program would require increases of \$1,407,800 FED in 2007-08 and \$2,843,800 FED in 2008-09. The same percentage increases for the local bridge improvement assistance program would require increases of \$659,300 in 2007-08 and \$1,331,800 in 2008-09, amounts that could be provided with SEG or FED funds, or some combination of the two.

3. Under the bill as submitted, the estimated biennium-ending balance in the transportation fund was \$30,919,600. 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 for selected transportation programs. The errata prescribed specific increases to the major highway development and state highway rehabilitation programs, and indicated that the remaining additional funds, approximately \$2.5 million in 2007-08 and \$5.3 million in 2008-09, should be provided proportionately to five local transportation aid and assistance programs that would receive a 2.0% annual increase under the bill (general transportation aid, mass transit assistance, elderly and disabled county aid, LRIP, and aeronautics assistance). One alternative to this recommendation, however, would be to use the funding to provide 2.0% annual increases to the local transportation facility improvement assistance and local bridge improvement assistance programs. Although the additional funding identified in the errata would be sufficient to provide these increases, the increases for the local transportation facility improvement assistance appropriation would have to be made with federal funds, which could be accomplished by exchanging a portion of the additional transportation fund revenues with an equal amount of federal revenues in another program that uses both types of funds.

4. Since the budget was introduced, transportation fund revenues have been reestimated. As described in LFB Issue Paper #760, the biennium-ending balance in the transportation fund is now estimated at \$99,814,900. The higher projected ending balance could be used to provide additional increases to transportation programs, reduce the use of bonds in transportation programs, reduce the transportation fund taxes and fees in the bill, or a combination of these actions. If a decision is made to provide additional increases to local transportation assistance programs, the Committee may choose to provide even percentage increases for these programs. The tables below show the changes to the funding in the bill that would be required to provide even-percentage increases to the four programs discussed in this paper.

Local Roads Improvement Program

	<u>Entitlement Component</u>		<u>Discretionary Component</u>		<u>Both Components</u>	
	<u>2007-08</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>
1.0%	-\$165,800	-\$336,600	-\$70,000	-\$142,100	-\$235,800	-\$478,700
2.0	0	0	0	0	0	0
3.0	165,900	340,100	70,000	143,500	235,900	483,600
4.0	331,700	683,400	140,000	288,400	471,700	971,800
5.0	497,600	1,030,000	210,000	434,700	707,600	1,464,700
6.0	663,400	1,380,000	280,000	582,400	943,400	1,962,400

Aeronautics Assistance (SEG Portion)

	<u>2007-08</u>	<u>2008-09</u>
1.0%	-\$126,100	-\$256,000
2.0	0	0
3.0	126,100	258,500
4.0	252,200	519,500
5.0	378,400	783,200
6.0	504,500	1,049,300

Local Transportation Facility Improvement Assistance

	<u>2007-08</u>	<u>2008-09</u>
1.0%	\$703,900	\$1,414,900
2.0	1,407,800	2,843,800
3.0	2,111,700	4,286,800
4.0	2,815,700	5,744,000
5.0	3,519,600	7,215,100
6.0	4,223,500	8,700,400

Local Bridge Improvement Assistance

	<u>2007-08</u>	<u>2008-09</u>
1.0%	329,700	662,700
2.0	659,300	1,331,800
3.0	989,000	2,007,600
4.0	1,318,600	2,690,000
5.0	1,648,300	3,379,000
6.0	1,977,900	4,074,500

5. 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 roads 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.

6. In the case of the discretionary component of the local roads improvement program, the statutes specify an allocation of funding between counties, municipalities, and towns. Currently, counties receive 75% of the funds, municipalities receive 14.3%, and towns receive 10.7%. The bill would provide a 2.0% annual increase in the appropriation for the discretionary program, but would make adjustments to the statutory distributions of 2.0% in 2007-08 and 4.0% in 2008-09. The Department of Administration has issued an errata indicating that the intention was to adjust these amounts by 2.0% annually. If the Governor's recommended funding level is approved, the statutory distributions would have to be modified. Likewise, if the Committee decides to provide a different level of funding, the statutory allocations would have to be adjusted accordingly.

7. Inflationary increases are intended to maintain the real buying power of a program over time. However, even if increases are provided at the general rate of inflation, the program may lose purchasing power if the costs of program items increase at a rate greater than the general rate of inflation. According to an index published by the federal Bureau of Labor Statistics, the cost of materials used in highway and street construction has increased by a rate greater than the general rate of inflation for the past several years, including greater than 10% annually in the past two years. This index is for materials only, so it excludes construction labor, engineering services, and other program expenditures that have grown at a slower rate, but nevertheless, the increases are large enough to suggest that inflationary increases provided using the general rate of inflation are likely not sufficient to maintain the purchasing power of transportation construction programs.

8. Inflationary increases have commonly been provided for a variety of transportation programs in prior biennial budgets. However, the key circumstances that have allowed these increases to be provided have changed. First, the motor fuel tax rate is no longer indexed for inflation, removing the primary factor contributing to "natural" transportation fund revenue growth. Second, in the past several years, motor fuel consumption has declined or grown slowly. The combination of both factors means that, in a budget that does not include increases to transportation fund taxes and fees, natural revenue growth may not be sufficient to provide inflationary increases to a broad range of programs. Therefore, if the Legislature decides to reduce or eliminate the transportation fund tax and fee increases in the bill, it may be necessary to eliminate the funding increases in the bill for LRIP and aeronautics assistance.

ALTERNATIVES TO BILL

A. Local Roads Improvement Program -- Entitlement Component

1. Approve the Governor's recommendation to provide \$331,700 SEG and \$331,700 SEG-L in 2007-08 and \$670,000 SEG and \$670,000 SEG-L in 2008-09 for the local roads improvement program for making grants under the entitlement component of the program.

ALT A1	Change to Bill Funding	Change to Base Funding
SEG	\$0	\$1,001,700
SEG-L	<u>0</u>	<u>1,001,700</u>
Total	\$0	\$2,003,400

2. Modify the Governor's recommendation by approving a different annual increase percentage, as shown below (the figures represent both the changes to SEG funds and SEG-L funds):

	<u>Annual Increase</u>	<u>Change to Bill</u>		<u>Change to Base</u>	
		<u>2007-08</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>
a.	1.0%	-\$165,800	-\$336,600	\$165,900	\$333,400
b.	3.0	165,900	340,100	497,600	1,010,100
c.	4.0	331,700	683,400	663,400	1,353,400
d.	5.0	497,600	1,030,000	829,300	1,700,000
e.	6.0	663,400	1,380,000	995,100	2,050,000

3. Delete provision.

ALT A3	Change to Bill Funding	Change to Base Funding
SEG	-\$1,001,700	\$0
SEG-L	<u>-1,001,700</u>	<u>0</u>
Total	-\$2,003,400	\$0

B. Local Roads Improvement Program -- Discretionary Component

1. Approve the Governor's recommendation to provide \$140,000 SEG and \$140,000 SEG-L in 2007-08 and \$282,800 SEG and \$282,800 SEG-L in 2008-09 for the discretionary grant component of the local roads improvement program and set the statutory allocations under the program (with modifications to accomplish the Governor's intent) as follows: (a) \$5,355,000 in 2007-08 and \$5,462,100 in 2008-09 and annually thereafter for county projects; (b) \$1,020,000 in 2007-08 and \$1,040,400 in 2008-09 and annually thereafter for municipal projects; and (c) \$765,000 in 2007-08 and \$780,300 in 2008-09 and annually thereafter for town projects.

ALT B1	Change to Bill Funding	Change to Base Funding
SEG	\$0	\$422,800
SEG-L	<u>0</u>	<u>422,800</u>
Total	\$0	\$845,600

2. Modify the Governor's recommendation by approving a different annual increase percentage, as shown below (the figures represent both the changes to SEG funds and SEG-L funds) and establish corresponding statutory distributions as shown in the second table:

Appropriation Changes

	<u>Annual Increase</u>	<u>Change to Bill</u>		<u>Change to Base</u>	
		<u>2007-08</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>
a.	1.0%	-\$70,000	-\$142,100	\$70,000	\$140,700
b.	3.0	70,000	143,500	210,000	426,300
c.	4.0	140,000	288,400	280,000	571,200
d.	5.0	210,000	434,700	350,000	717,500
e.	6.0	280,000	582,400	420,000	865,200

Statutory Distributions

	<u>Annual Increase</u>	<u>Counties</u>		<u>Municipalities</u>		<u>Towns</u>	
		<u>2007-08</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>
a.	1.0%	\$5,302,500	\$5,355,500	\$1,010,000	\$1,020,100	\$757,500	\$765,100
b.	3.0	5,407,500	5,569,700	1,030,000	1,060,900	772,500	795,700
c.	4.0	5,460,000	5,678,400	1,040,000	1,081,600	780,000	811,200
d.	5.0	5,512,500	5,788,100	1,050,000	1,102,500	787,500	826,900
e.	6.0	5,565,000	5,898,900	1,060,000	1,123,600	795,000	842,700

3. Delete provision.

ALT B3	Change to Bill Funding	Change to Base Funding
SEG	-\$422,800	\$0
SEG-L	<u>- 422,800</u>	<u>0</u>
Total	-\$845,600	\$0

C. Aeronautics Assistance

1. Approve the Governor's recommendation to provide \$252,200 SEG in 2007-08 and

\$509,500 SEG in 2008-09 for the aeronautics assistance program.

ALT C1	Change to Bill Funding	Change to Base Funding
SEG	\$0	\$761,700

2. Modify the Governor's recommendation by approving a different annual SEG increase percentage, as shown below:

	Annual Increase	Change to Bill		Change to Base	
		<u>2007-08</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>
a.	1.0%	-\$126,100	-\$256,000	\$126,100	\$253,500
b.	3.0	126,100	258,500	378,300	768,000
c.	4.0	252,200	519,500	504,400	1,029,000
d.	5.0	378,400	783,200	630,600	1,292,700
e.	6.0	504,500	1,049,300	756,700	1,558,800

3. Delete provision.

ALT C3	Change to Bill Funding	Change to Base Funding
SEG	-\$761,700	\$0

D. Local Transportation Facility Improvement Assistance

1. Modify the bill to provide annual FED increases as shown below for the local transportation facility improvement assistance program and adjust the SEG-L appropriation, as shown, to reflect the corresponding local match. [The amounts in the table reflect both change to the bill and change to the base, since the bill would not provide funding increases for this program.]

	Annual Increase	FED		SEG-L	
		<u>2007-08</u>	<u>2008-09</u>	<u>2007-08</u>	<u>2008-09</u>
a.	1.0%	\$703,900	\$1,414,900	\$176,000	\$353,700
b.	2.0	1,407,800	2,843,800	352,000	711,000
c.	3.0	2,111,700	4,286,800	527,900	1,071,700
d.	4.0	2,815,700	5,744,000	703,900	1,436,000
e.	5.0	3,519,600	7,215,100	879,900	1,803,800
f.	6.0	4,223,500	8,700,400	1,055,900	2,175,100

2. Maintain current law.

E. Local Bridge Improvement Assistance

1. Modify the bill to provide an annual SEG increases as shown below for the local bridge improvement assistance program and adjust the SEG-L appropriation, as shown, to reflect the corresponding local match. [The amounts in the table reflect both change to the bill and change to the base, since the bill would not provide funding increases for this program. These increases are shown as an increase to the SEG appropriation, but could also be provided in part or in whole with federal funds.]

	Annual Increase	SEG		SEG-L	
		2007-08	2008-09	2007-08	2008-09
a.	1.0%	\$329,700	\$662,700	\$82,400	\$165,700
b.	2.0	659,300	1,331,800	164,800	333,000
c.	3.0	989,000	2,007,600	247,300	501,900
d.	4.0	1,318,600	2,690,000	329,700	672,500
e.	5.0	1,648,300	3,379,000	412,100	844,800
f.	6.0	1,977,900	4,074,500	494,500	1,018,600

2. Maintain current law.

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