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2017 Joint Committee on Finance Paper #605

General Transportation Aids (Transportation -- Local Transportation Aid)

Base Agency

[LFB 2017-19 Budget Summary: Page 436, #1]

CURRENT LAW

General transportation aid is paid to counties and municipalities (cities, villages, and towns) to assist in the maintenance, improvement, and construction of local roads. General transportation aid distribution amounts for 2017 and thereafter are $98,400,200 for counties and $321,260,500 for municipalities. The mileage aid rate is set at $2,202 per mile for 2017 and thereafter. General transportation aid payments are made from two sum certain, transportation fund appropriations.

GOVERNOR

Provide the following related to the general transportation aids program:

a. *County Aid.* Increase funding by $3,173,400 in 2017-18 and $12,693,600 in 2018-19 to fund a 12.9% increase to the calendar year 2018 general transportation aid distribution for counties. The statutory, calendar year distribution for counties is currently equal to $98,400,200 for 2017 and thereafter. This would provide a calendar year distribution amount for counties equal to $111,093,800 for 2018 and thereafter.

b. *Municipal Aid.* Increase funding by $13,689,400 in 2017-18 and $27,378,800 in 2018-19 to fund an 8.5% increase to the calendar year 2018 general transportation aid distribution for municipalities. The statutory, calendar year distribution level for municipalities is currently equal to $321,260,500 for 2017 and thereafter. This would provide a calendar year distribution amount for municipalities equal to $348,639,300 for 2018 and thereafter. The mileage aid rate would also increase by 8.5% (from its current level of $2,202 per mile) to $2,389 per mile for calendar year 2018 and thereafter.

DISCUSSION POINTS

Governor's proposal

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. Separate appropriations are made for counties and municipalities. There are two basic formulas by which general transportation aid is distributed: (a) share of costs aid, which covers a percentage of six-year average costs; and (b) mileage aid, which is based on a statutory mileage aid rate multiplied by a local government's jurisdictional miles. Counties receive only share of costs aid, while municipal payments are based on either share of costs aid or mileage aid, whichever is greater. [The mileage aid rate is mostly received by towns.]

2. The general transportation aids program is the second largest program in DOT's budget and represents 25.6% of all transportation fund appropriations in 2016-17. The $98,400,200 provided to counties and the $321,260,500 provided to municipalities in 2015 under current law helps offset some of the costs of local road construction, maintenance, traffic enforcement, and other transportation-related costs on 19,900 miles of county roads, 20,200 miles of city and village streets, and 61,800 miles of town roads.

3. The Governor's recommendation for the general transportation aid program would fund a 12.9% increase to the calendar year 2018 general transportation aid distribution for counties and an 8.5% increase to the calendar year 2018 general transportation aid distribution for municipalities (including an 8.5% increase to the mileage aid rate) [Alternative 1]. Table 1 indicates the annual change in general transportation aid as well as the percentage of eligible, six-year average costs covered by state general transportation aid for counties and municipalities on the share of costs formula.

TABLE 1

Annual Aid Funding Change and Percent of Six-Year Average Costs Covered by State Aid (2008-2017)

	County Aid		Municipal Aid*	
Year	% Change	% of Costs	% Change	% of Costs
2008	3.0%	22.5%	3.0%	18.4%
2009	3.0	22.5	3.0	18.5
2010	2.0	22.2	2.0	17.9
2011	3.0	22.2	3.0	18.0
2012	-9.4	18.8	-6.0	12.9
2013	0.0	19.0	0.0	15.5
2014	0.0	18.2	0.0	15.3
2015	4.0	18.4	4.0	15.9
2016	0.0	17.9	0.0	15.8
2017	0.0	17.5	0.0	15.6

*For those local governments receiving aid through the share of costs aid component.

4. As indicated in Table 1, the percentage of transportation costs covered by state funds has declined from 22.5% for counties and 18.4% for municipalities in 2008 to 17.5% for counties and 15.6% for municipalities in 2017. While this is partially due to the 2012 aid reductions, six-year average costs have grown as well. For example, from 2011 to 2017, six-year average costs have grown 20.8% for counties and 8.6% for municipalities, while the aid distribution amount during this period decreased by 5.8% for counties and 2.2% for municipalities.

5. Because towns typically have a relatively large number of highway miles relative to their annual transportation-related costs, most towns receive mileage aid. Of the 1,253 towns in the state, 1,215 received mileage (as opposed to share of cost) aid in 2017. However, under the general transportation aid program, no jurisdiction receiving mileage-based aid may receive an aid amount exceeding 85% of its three-year average (2013 through 2015, for 2017 payments) highway-related costs. In 2017, this provision reduced aid payments to a total of 78 jurisdictions, of which 76 were towns. Because the Governor's budget would provide an 8.5% increase to the mileage aid rate in calendar year 2018, it is likely that additional towns would be limited by this cost threshold, which could result in a portion of the recommended increase being redistributed through the share of cost side of the formula which principally provides funding to cities and villages. Although the 85% of costs limit could reduce the amount of the increase going primarily to towns, for comparison purposes, municipalities on the share of costs formula received payments equaling only 15.6% of their six-year average costs in 2017.

Discussion of State and Local Infrastructure Demands

6. Given demands on both state and local transportation infrastructure and the limited state resources currently available to meet those needs, one policy discussion that confronts the state is whether the state can afford to increase funding for local roads at time when the state is having difficulty funding the state's transportation infrastructure needs. Whether or not the state should commit additional resources for local roads, provide local governments with additional flexibility to generate the needed revenues at the local level to maintain their own roads, or retain statewide transportation fund revenues to meet state infrastructure needs, are the significant policy questions associated with the Governor's recommendation on local road funding. The next several points provide further discussion of this policy concern.

7. State transportation aid covers only a portion of county and municipal transportation-related costs. Therefore, most of these costs are covered by local property taxes and other revenues, as well as state county and municipal aid payments (such as shared revenue). Under the Governor's budget, county and municipal aid would not be increased, while property tax levy limits on local governments would also remain in place. Therefore, approving the Governor's recommended increase in transportation aid could be seen as a means to mitigate the ongoing impact of these fiscal policies on counties and municipalities (especially town governments, whose transportation costs make up a large percentage of their total governmental costs).

8. Due to the local transportation finance constraints discussed above, the condition of local and state roads, as well as state-level, transportation finance concerns, in 2016, local government associations and transportation lobbying groups began a statewide initiative (the "Just Fix It" campaign) aimed at encouraging the Legislature and the Governor to increase available

transportation revenue. One such mechanism that could be seen as responsive to the local elements of the campaign would be to adopt an alternative that would provide communities with an additional local sales and use tax for transportation purposes, similar to what was proposed under Assembly Substitute Amendment 2 to 2015 AB 210. [Alternative 2] Under this substitute amendment, the bill would have limited the use of any revenue collected to highway maintenance purposes. This alternative would modify the allowable uses of this tax revenue to include expenditure for the improvement of existing highways and the construction of new highways.

9. Under the above alternative, a county, following a successful referendum, would be allowed to impose an additional sales and use tax at the rate of 0.5% to be used only for highway maintenance, improvement of existing highways, and the construction of new highways. Counties could impose the tax for a period of four years. If the county wished to extend the tax beyond four years, it would have to be approved again through a county-wide referendum. Counties would only be able to retain a portion of the tax revenue and would be required to distribute the remainder using formulas based on road miles and population. First, counties would be allowed to keep 25% of collections from the additional sales tax revenue for county roads. Then the remainder of the annual revenue would be distributed through two formulas as follows: (a) the first formula would distribute 50% of total annual collections to counties, cities, villages, and towns, based on share jurisdictional of centerline mileage (weighted by the highway type); and the second formula would distribute the remaining 25% of total, annual collections to cities, villages, and towns (excluding counties) based on share of county population. This alternative could be adopted in partial replacement of, in lieu of, or in addition to the Governor's recommended increases to the general transportation aid program.

10. During the Committee's public hearings on the budget bill, a number of municipal officials offered testimony on the difficulty of funding road improvements. Counties and municipalities generally use tax levies, related assessments, intergovernmental revenue (state and federal aid), and debt proceeds to fund their transportation related-infrastructure. Debt can only be issued to carry out capital improvement or construction-related projects. Like counties, municipalities are subject to a levy limit program that limits their year-to-year levy increases. Some testified at Committee's public hearings on the budget bill that the local levy limit is one of the reasons local governments are having difficulty funding road improvements. To assist local governments with this dilemma, the budget bill would provide an additional combined state funding amount of $75.9 million for the general transportation aid, local roads improvement, and local bridge improvement assistance programs.

11. One exclusion from the local levy limit is the amount of annual debt service associated with debt issued after July 1, 2005. As a result, counties and municipalities can borrow to meet their transportation infrastructure needs or for the local match without running afoul of the levy limit restrictions. As an example, in 2015, municipalities funded over half of their road construction and maintenance expenditures with long-term debt, while counties funded less than 20% of such expenditures with long-term debt. If there is concern with the amount of funding the Governor is recommending for local roads, as well as the amount of debt at the local level, the Committee could consider a limited exclusion to the municipal levy limit for transportation infrastructure construction projects in lieu of the recommended increase. See LFB Paper #585 for a discussion of such an exclusion.

12. Over the past decade, limited transportation fund revenue growth and the consequential extensive use of transportation fund-supported debt to finance highway infrastructure have contributed to an increasing percentage of transportation fund revenue being used to pay debt service on that debt. In addition, over the past several biennia, DOT has identified substantial current and future program needs in the state highway improvement program that continue to demand significant resources from the transportation fund. Although at Secretary Ross's directive, the Department has recently begun the process of redefining the program's need, the extent to this process will succeed in reducing the future scope and cost of the highway improvement program remains unclear. Nonetheless, one concern with the Governor's budget recommendations is that it would commit a significant additional amount of transportation fund resources (SEG) to local transportation programs (totaling $75.9 million in the 2017-19 biennium), including general transportation aid.

13. Although the recommended increases to local road funding may be warranted, this commitment of SEG funding to the local program in the 2017-19 biennium, and beyond, could compel the state to borrow for an even greater percentage of highway improvement funding by diminishing the state's cash resources available in the future. Changes to SEG appropriations for the major components of the highway improvement program for a five-biennium period (including the Governor's 2017-19 recommendations) are shown in the following table.

TABLE 2

SEG Appropriations for Major Components of State Highway Improvement Program ($ in Millions)

SEG Appropriations	2009-11	2011-13	2013-15	2015-17	2017-19
Major Highway Development	$162.1	$222.6	$167.2	$131.1	$152.9
Southeast Wisconsin Freeways	128.2	78.7	36.9	36.5	27.2
State Highway Rehabilitation	499.8	614.7	845.0	627.3	557.9
Total	$790.2	$916.0	$1,049.1	$795.0	$738.0
% Change		15.9%	14.5%	-24.2%	-7.2%

Note: Transfers from the general fund and petroleum inspection fund have increased the amount of SEG available for appropriation in each of the biennia shown, as follows: $40.4 million in 2009-11; $211.7 million in 2011-13; $250.7 million in 2013-15; and $135.3 million in 2015-17. Under the Governor's recommendation, this equivalent transfer amount would equal $141.9 million. Some totals do not add due to rounding.

14. If the Committee believes that the state should retain SEG "cash" revenue for the state highway improvement program, the Committee could decide to increase aid to local governments by some lesser percentage [Alternatives 3a thru j] or delete the Governor's recommendation to increase general transportation aid funding [Alternative 4] and provide no additional transportation fund resources. In so doing, the Committee could also provide one of the alternatives discussed earlier to provide local governments with the ability to generate their own additional revenue for transportation purposes.

15. Table 3 shows the funding amounts that would be needed compared to base and the bill associated with different annual percentage increases in funding. Because the bill would provide a 12.9% increase to counties and an 8.5% increase to municipalities, providing a smaller percentage increase, such as those shown in table, would require less funding than under the bill. As a result, less funding than would be provided under the bill would be needed to provide one of these smaller increases.

TABLE 3

Potential Funding Changes -- Compared to Base and the Bill

	Counties -- Change to Base		Municipalities -- Change to Base	
% Increase	2017-18	2018-19	2017-18	2018-19
1.0%	$246,000	$984,000	$1,606,300	$3,212,600
2.0	492,000	1,968,000	3,212,600	6,425,200
3.0	738,000	2,952,000	4,818,900	9,637,800
4.0	984,000	3,936,000	6,425,200	12,850,400
5.0	1,230,000	4,920,000	8,031,500	16,063,000

	Counties -- Change to Bill		Municipalities -- Change to Bill	
% Increase	2017-18	2018-19	2017-18	2018-19
1.0%	-$2,927,400	-$11,709,600	-$12,083,100	-$24,166,200
2.0	-2,681,400	-10,725,600	-10,476,800	-20,953,600
3.0	-2,435,400	-9,741,600	-8,870,500	-17,741,000
4.0	-2,189,400	-8,757,600	-7,264,200	-14,528,400
5.0	-1,943,400	-7,773,600	-5,657,900	-11,315,800

16. If the Governor's recommendation is not adopted and no funding increase is provided over the 2016-17 base level funding amount, the ongoing calendar aid level would remain at $98.4 million for counties and $321.3 million for municipalities (the rate per mile would remain at $2,202 per mile).

17. 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 for municipalities. County aid payments are made in two installments, each equal to one-quarter of the calendar year total, on the first Monday of January and October and a third installment equal to one-half of the calendar year total on the first Monday of July of each year. Therefore, if an increase in calendar year 2019 would be provided, the remaining portion of the calendar year increase would have to be funded in next fiscal year (2019-20). This would increase the funding commitments on the transportation fund in the next biennium. This future commitment could be avoided if, as under the Governor's budget recommendations, any additional funding increase is provided in 2018, with no additional increase in 2019.

18. At the time the bill was submitted, the estimated, biennium-ending balance in the transportation fund was $8.4 million. Under the revenue reestimate described in LFB Paper #595, the ending balance for the 2015-17 biennium is now estimated at $101.8 million, $93.4 million higher. Any decision to provide additional funding for general transportation aid would have to take into account the available balance in the transportation fund, as well as other transportation funding demands.

ALTERNATIVES

1. Provide the following related to the general transportation aids program:

County Aid. Increase funding by $3,173,400 in 2017-18 and $12,693,600 in 2018-19 to fund a 12.9% increase to the calendar year 2018 general transportation aid distribution for counties. The statutory, calendar year distribution for counties is currently equal to $98,400,200 for 2017 and thereafter. This would provide a calendar year distribution amount for counties equal to $111,093,800 for 2018 and thereafter.

Municipal Aid. Increase funding by $13,689,400 in 2017-18 and $27,378,800 in 2018-19 to fund an 8.5% increase to the calendar year 2018 general transportation aid distribution for municipalities. The statutory, calendar year distribution level for municipalities is currently equal to $321,260,500 for 2017 and thereafter. This would provide a calendar year distribution amount for municipalities equal to $348,639,300 for 2018 and thereafter. The mileage aid rate would also increase by 8.5% (from its current level of $2,202 per mile) to $2,389 per mile for calendar year 2018 and thereafter.

ALT 1	**Change to**	
	Base	**Bill**
SEG	$56,935,200	$0

2. Adopt the provisions of Assembly Substitute Amendment 2 to 2015 AB 210, but modified to include the improvement of existing highways and the construction of new highways as allowable uses of this local option sale tax revenue.

3. Modify the Governor's recommendation by instead providing a general transportation aid change (SEG) for 2018 and thereafter at one of the following percentages. Set the annual county and municipal distribution amounts, establish the mileage aid rate, and change the general transportation aid appropriations as shown below.

2018 % Increase		Calendar Year County Distribution 2018	2019	SEG Change to Base 2017-18	2018-19	SEG Change to Bill 2017-18	2018-19
a.	1.0%	$99,384,200	$99,384,200	$246,000	$984,000	-$2,927,400	-$11,709,600
b.	2.0	100,368,200	100,368,200	492,000	1,968,000	-2,681,400	-10,725,600
c.	3.0	101,352,200	101,352,200	738,000	2,952,000	-2,435,400	-9,741,600
d.	4.0	102,336,200	102,336,200	984,000	3,936,000	-2,189,400	-8,757,600
e.	5.0	103,320,200	103,320,200	1,230,000	4,920,000	-1,943,400	-7,773,600

2018 % Increase		Calendar Year Municipal Distribution 2018	2019	Calendar Year Rate per Mile 2018	2019	SEG Change to Base 2017-18	2018-19	SEG Change to Bill 2017-18	2018-19
f.	1.0%	$324,473,100	$324,473,100	$2,224	$2,224	$1,606,300	$3,212,600	-$12,083,100	-$24,166,200
g.	2.0	327,685,700	327,685,700	2,246	2,246	3,212,600	6,425,200	-10,476,800	-20,953,600
h.	3.0	330,898,300	330,898,300	2,268	2,268	4,818,900	9,637,800	-8,870,500	-17,741,000
i.	4.0	334,110,900	334,110,900	2,290	2,290	6,425,200	12,850,400	-7,264,200	-14,528,400
j.	5.0	337,323,500	337,323,500	2,312	2,312	8,031,500	16,063,000	-5,657,900	-11,315,800

4. Delete provision. [The ongoing calendar aid level would remain at $98.4 million for counties and $321.3 million for municipalities (the rate per mile would remain at $2,202 per mile).]

ALT 3	**Change to Base**	**Change to Bill**
SEG	$0	- $56,935,200

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