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Joint Committee on Finance

Paper #770

Local Roads Improvement Program (Transportation – Local Transportation Assistance)

[LFB 2023-25 Budget Summary: Page 631, #1 and Page 632, #2]

CURRENT LAW

The Department of Transportation (DOT) administers several local transportation assistance programs to provide state and federal funds for a variety of local road and bridge construction and rehabilitation projects, including (a) the local roads improvement program, a state-funded program that funds capital improvements on existing county, municipal, and town roads; (b) the surface transportation program, which allocates federal funds to complete a variety of improvements to federal-aid eligible roads and streets; and (c) the local bridge improvement assistance program, which allocates state and federal funds for projects that rehabilitate and replace bridges that are not located on state trunk highways or connecting highways.

DISCUSSION POINTS

1. Roadways and bridges in the state that are part of the state trunk highway system, consisting of roads classified as interstate highways, U.S. highways, and state highways, are under the jurisdiction of the state. Roadways and bridges that are not part of the state trunk highway system, however, fall under the jurisdiction of the local government where they are located. DOT operates several local transportation assistance programs that provide state and federal funds to local governments for projects to improve transportation infrastructure under their jurisdiction.

2. DOT currently administers two local road improvement programs funded solely with state funds. The core local roads improvement program (LRIP) has existed for decades and provides assistance for local government highway construction projects. The core LRIP funding is divided into a formula-based component and a discretionary grant component, each with its own appropriation. Funding under each component is further sub-divided into county, town, and municipal

subcomponents. Since 2017-19, this core LRIP program has been appropriated total funding of \$66.1 million in each biennium. The program provides grants of state funds on a biennial cycle to reimburse local governments for up to 50% of the costs for projects to complete capital improvements on local roads. For the last two biennia, DOT has also administered an LRIP discretionary supplemental grant program (LRIP-S). The program was provided one-time funding in each biennia, totaling \$90.0 million in 2019-21 and \$100.0 million in 2021-23. LRIP-S funds are distributed among counties, towns, and municipalities in the same proportion as the core LRIP discretionary component, but the program can reimburse local governments for up to 90% of eligible project costs, rather than the 50% reimbursement cap under the existing LRIP program.

3. DOT also administers separate programs that allocate federal aid for state or local road and bridge construction projects. These programs can provide up to 80% of costs for state or local projects, with the recipient government covering the remaining 20% of costs. Projects aided with these federal funds also have meet federal environmental and wage-related requirements in order to eligible for the funding.

A. LRIP- S Component Funding

4. Assembly Bill 43/Senate Bill 70 (AB 43/SB 70) would again provide significant state funding to LRIP-S in the 2023-25 biennium to assist local governments with road improvement project under their jurisdiction. Under the recommendation, \$50,000,000 SEG annually would be provided, which would create an ongoing LRIP-S program for first time. This funding would be in addition to a separate provision to increase core LRIP funding by 4% annually (discussed later).

5. Table 1 indicates the amounts appropriated to the two core LRIP components and the LRIP-S program since the 2015-17 biennium, including the 2023-25 funding recommendations. As shown in the table, LRIP funding increased by 136.2% in 2019-21 due to the introduction of the LRIP-S program. AB 43/SB 70 would allocate \$100.0 million to LRIP-S in the 2023-25 biennium, and create base level funding for the program that would continue to fund that program at \$100 million in subsequent biennia.

TABLE 1

**Biennial LRIP Funding, 2015-17 through 2023-25
(\$ in Millions)**

	<u>2015-17</u>	<u>2017-19</u>	<u>2019-21</u>	<u>2021-23</u>	<u>2023-25*</u>
Formula Component	\$32.4	\$35.7	\$35.7	\$35.7	37.9
Discretionary Component	23.7	30.4	30.4	30.4	32.2
Supplemental Component	<u>0.0</u>	<u>0.0</u>	<u>90.0</u>	<u>100.0</u>	<u>100.0</u>
Total	\$56.1	\$66.1	\$156.1	\$166.1	170.1
% Change		17.8%	136.2%	6.4%	2.4%

*Amounts shown for 2023-25 reflect recommended funding under AB 43/SB 70

6. Table 2 displays DOT data on the condition of local roads in the state. These data are derived from local road inspections, which local governments are required to conduct on a biennial basis and report to DOT. The data show that the percentage of roadway miles in poor condition increased for local governments of all types over this period, while the percentage of roadway miles in good condition decreased. However, for the most part, this data was reported prior to the recent increases in state funding for LRIP.

TABLE 2

Percent of Local Highway Miles in Poor and Good Condition, 2011-21

<u>Year</u>	<i>Percent of Roadways in Poor Condition</i>				
	<u>Counties</u>	<u>Towns</u>	<u>Villages</u>	<u>Cities</u>	<u>Total</u>
2011	7.4%	7.6%	8.3%	9.7%	7.9%
2013	8.3	8.0	8.2	9.8	8.4
2015	8.0	8.7	8.3	10.5	8.8
2017	7.5	9.3	8.3	9.9	8.8
2019	9.0	10.8	8.9	11.4	10.3
2021	8.9	10.9	8.4	12.8	10.5

<u>Year</u>	<i>Percent of Roadways in Good Condition</i>				
	<u>Counties</u>	<u>Towns</u>	<u>Villages</u>	<u>Cities</u>	<u>Total</u>
2011	72.8%	71.6%	72.7%	68.1%	71.5%
2013	71.8	70.0	72.2	66.6	70.1
2015	70.7	67.3	71.5	64.8	68.2
2017	69.7	65.7	71.0	64.7	67.0
2019	65.7	62.3	69.2	62.3	63.8
2021	65.3	60.9	68.1	61.1	62.7

7. As with state highway construction, local transportation projects have been impacted by inflation in recent years. The U.S. consumer price index increased by 5.0% in the one year between March, 2022 and March, 2023, and by 14.0% over the two years prior to March, 2023. Over the same period, the Department's construction cost index, which tracks prices on a "basket" of construction inputs such as asphalt, concrete pavement, and labor, rose by 19.0% in one year and 30.5% over two years. However, DOT notes that the actual cost increases observed in its projects may be less than what its construction cost index would suggest. For example, through May, 2023, the overall cost of lets for DOT projects in the 2022-23 fiscal year were only 4.8% higher than anticipated in project budgets. Whatever the level of inflation, these cost increases may lead to decreased real return on investment for funding provided under LRIP.

8. DOT does not maintain data on the number of LRIP grant applications it receives, as projects under the discretionary and supplemental components are selected by committees of local government representatives, while the formula component distributes specific amounts of funding each year. However, the Department does maintain data on local grant applications for its surface transportation program (STP), a federally-funded program that also provides grants for the

improvement of local roads. The most recent round of STP grants (the 2023-26 program cycle) awarded \$131.5 million in program funds through 81 grants to smaller local governments (under the STP-Local, STP-Rural, and the STP-Urban 5,000 to 50,000 subcomponents). However, the Department received 919 applications for over \$1.2 billion in program funding, which suggests that strong demand exists among local governments for road improvement funding.

9. Given data on the local road conditions in the state, the impact of inflation in recent years on the ability of local governments to fund local road improvement projects, and the known demand for local road improvement funding, adopting the recommendation to provide \$50.0 million SEG annually to LRIP-S could be considered warranted. Providing this funding under LRIP-S, rather than the core LRIP program, may be more favorable to recipients as the LRIP-S component requires only 10% local matching funds. In addition, LRIP-S funding may be more favorable to local governments, as program funds do not include the environmental and wage-related rules that are required under federally-funded programs such as STP. This recommendation could assist local governments to complete additional road improvement projects, and also provide local governments with financial relief given local budget constraints, inflation, and transportation needs. As mentioned earlier, this would also establish base level funding of \$50.0 million annually to continue operating LRIP-S in future years. [Alternative A1]

10. In addition to LRIP, DOT operates other local transportation assistance programs, which provide financial assistance to local governments to help them maintain improve their transportation infrastructure. These programs include STP, a program that provides grants of federal funds for improvement projects on local roads and streets, and the local bridge improvement assistance (local bridge) program, which makes grants using both state and federal funds for projects to improve bridges located on local roads. The STP program includes a federally-designated allocation of funds for areas with a population below 50,000 to be used for lower-classification roads (minor collectors and local roads), which can typically be town roads.

11. The federal funds received by DOT for both the STP and local bridge program increased significantly in 2021-22 following the passage of the federal infrastructure investment and jobs act (IIJA), which greatly increased the amount the amount of federal transportation funding that is provided to states each year. Table 3 shows the funding provided under the LRIP, STP, and local bridge programs since the 2015-17 biennium, as well as the amounts recommended for these programs in 2023-25. As shown in the table, funding under these programs increased by 31.0% in 2019-21 following the introduction of LRIP-S, and by an additional 63.3% in 2021-23 following the enactment of the federal IIJA. As a result, total funding for these three programs increased by 139.8% between 2015-17 and 2021-23. AB 43/SB 70 would continue providing an elevated funding level for these programs in the 2023-25 biennium.

TABLE 3**DOT LRIP, STP, and Local Bridge Program Funding Since 2013-15**

	<u>2015-17</u>	<u>2017-19</u>	<u>2019-21</u>	<u>2021-23</u>	<u>2023-25*</u>
Local Roads Improvement Program	\$56.1	\$66.1	\$156.1	\$166.0	170.1
Surface Transportation Program	134.5	134.4	134.5	257.0	268.9
Local Bridge Program	<u>65.7</u>	<u>86.7**</u>	<u>85.7</u>	<u>191.6</u>	<u>156.2</u>
Total	\$256.3	\$287.1	\$376.2	\$614.6	\$595.2
Percent Change		12.1%	31.0%	63.3%	-3.2%
Cumulative Percent Change		12.1%	46.8%	139.8%	132.2%

*Amounts shown for 2023-25 reflect recommended funding under AB 43/SB 70.

**Does not include \$30.0 million SEG and \$8.6 million FED appropriated in 2017-18 federal plan, approved by the Committee in June, 2018.

12. In addition to these programs, 2023 Senate Bill 247 would create a new LRIP component to award grants for improvement to agricultural road facilities, and would provide \$150.0 million GPR to this local road program in 2023-24. The program would require no matching funds from applicants, and would also require DOT to develop a simple and clear application process that would be reasonably accessible to political subdivisions with limited staffing resources, including an application that does not exceed two pages in length. If the bill were adopted, even more local funding would be available for road and bridge improvements.

13. While local road conditions have declined between 2011 and 2021, these data likely do not reflect the impact of the increased levels of local transportation funding that have been available since 2019-21. DOT indicates that projects funded under its local transportation programs are typically completed approximately four years after they receive grants from these programs, but that some projects can take up to six years. Thus, data beyond 2021 may show that the significant increase in local road and bridge funding in recent biennia improved the trend for local road conditions in the state.

14. In 2019-21 and 2021-23, similar amounts of funding were provided to LRIP-S as the amount recommended in AB 43/SB 70, but funds were provided on a one-time basis. In recognition that there may be need for additional local transportation assistance funding, but also considering that future local road condition data may show that the additional ongoing federal transportation funding provided under IIIJA may be sufficient to meet this need, the Committee could avoid committing ongoing funding to the program, and instead continue providing one-time funding to LRIP-S by appropriating \$100,000,000 SEG to the program in 2023-24. [Alternative A2]

15. Limited transportation fund revenues may be available in 2023-25. Projected transportation revenues have been revised downward in the biennium from the amounts recommended in AB 43/SB 70, as revenue collections in 2022-23 are lower than expected and relevant economic outlook factors for 2023-25 have worsened since the bill was introduced. Meanwhile, demands for the expenditure of transportation fund revenues may increase in 2023-25 and beyond due to large upcoming projects, such as the I-41 from Appleton to De Pere, I-94 East-

West, and the Blatnik Bridge reconstruction projects, the southern bridge construction project in Brown County, and inflationary demands across transportation programs.

16. Given funding demands on the transportation fund and the infrastructure demands of both state and local transportation infrastructure, one policy discussion that confronts the state is whether it can afford to provide an ongoing increase in funding for local roads and still continue to meet the state's highway infrastructure needs. AB 43/SB 70 would also provide increases in mostly unrestricted aid in the form of general transportation aid from the transportation fund, as well as a significant increase in county and municipal aid from the general fund. Whether or not the state should commit additional transportation fund resources for local roads, while also providing these other resources, or retain statewide transportation fund revenues to meet state highway infrastructure needs, is a primary policy question associated with the Governor's recommendation to commit to significant ongoing LRIP-S local road funding.

17. Given the limited availability of transportation revenues and the expected availability of additional federal funding for local road improvement projects in the 2023-25 biennium, providing \$25,000,000 SEG annually to LRIP-S, or half of the amount recommended under the bills may be a more viable option. This would still provide ongoing funding for the LRIP-S program, but would limit transportation fund expenditures compared to the bill. [Alternative A3]

18. LRIP-S can provide state funding for up to 90% of eligible program costs. This state match rate is higher than the 80% rate generally provided for federal funds under the STP and local bridge programs, and the 50% rate required for other LRIP components. Matching funds are typically required to demonstrate that recipients are capable of and committed to providing long-term funding for ongoing maintenance of the infrastructure constructed by the project. In addition, matching funds could be required to share project costs among stakeholders, which may be just when considering that project recipients are the primary benefactors of the project. Further, higher required match rates can allow program funds to be used to complete a greater number a projects, which could allow funding to be used more cost-effectively to improve local road conditions.

19. Proponents of additional state funding for local road infrastructure indicate that a low local match requirement is necessary in order for some local governments to apply for the funding. Further, concerns have been raised that local governments are reluctant to apply for federal programs such as STP and the local bridge program due to the more stringent application processes and regulations associated with federal funds. However, as mentioned earlier, despite a large increase in federal funding, demand for the federal STP has exceeded the funding available, so local governments' ability and desire to access these programs may not be a concern. A counter concern that could exist regarding the continued provision of funding for the LRIP-S program, or other low local match grant funds, is that such funding may result in reduced demand for the higher level of funding from federally local assistance programs under IJA. This issue is a particular cause for concern as the state must allocate all the federal funding it receives by the end of each federal fiscal year in order to maximize federal aid and avoid federal penalties.

20. As noted, concerns may exist regarding the potential for the LRIP-S funding to dampen demand for the increased federal local road and bridge funding available or for core LRIP funding. Further, given the limited availability of transportation fund revenues and additional federal funding

already available under those local transportation assistance programs, the additional recommended funding for LRIP-S could be denied. If the recommendation were denied, additional funding could instead be provided to the core LRIP, which has a 50% local match rate that demonstrates a greater local financial commitment to a project and has a lower, if any impact on demand for the 80%/20% federal local program funds. Denying the request for an ongoing significant state investment in local roads at a 90%/10% match rate would also provide some time to assess the impact of recent increases in local road funding funds on road conditions, particularly given the additional funds received under IIIJA. [Alternative A4]

B. Allocation of LRIP-S Funding

21. In 2021-23, the one-time funding provided for the LRIP-S program was accompanied by statutory language that required LRIP-S funds to be allocated among counties, towns, and municipalities in the same proportion as the LRIP discretionary component. However, AB 43/SB 70 does not specify how the LRIP-S funding would be allocated. If any LRIP-S funding is approved for the 2023-25 budget, the Committee could specify that the funding for 2023-24 and all following years be allocated among counties, towns, and municipalities in the same proportions as the LRIP discretionary component. This would continue to distribute LRIP-S funds in the same manner as the previous biennium. [Alternative B1] If no additional statutory language were adopted, the statutes would not specify how LRIP-S funds would be distributed among local governments in the 2023-25 biennium. [Alternative B2]

C. LRIP Formula and Discretionary Component Funding

22. In addition to LRIP-S, AB 43/SB 70 would also increase funding for the LRIP formula allocation and discretionary components by 4% in each year of the 2023-25 biennium. Table 4 compares funding for LRIP in 2021-23 with the recommended 2023-25 funding level for both program components.

TABLE 4

2023-25 LRIP Program Funding Under Assembly Bill 43/Senate Bill 70

	<u>2021-23</u>	<u>2023-25</u>	<u>Difference</u>	<u>% Change</u>
Formula-Based Allocation				
Counties (43%)	\$15,106,400	\$16,040,600	\$934,200	6.2%
Towns (28.5%)	10,012,400	10,631,500	619,100	6.2
Municipalities (28.5%)	<u>10,012,400</u>	<u>10,631,500</u>	<u>619,100</u>	6.2
Total Formula Funds	\$35,131,200	\$37,303,600	\$2,172,400	6.2%
Discretionary Allocation				
Counties (35.6%)	\$10,786,800	\$11,455,800	\$656,600	6.2%
Towns (39.0%)	11,847,200	12,549,900	719,300	5.9
Municipalities (25.4%)	<u>7,700,800</u>	<u>8,173,500</u>	<u>468,500</u>	6.1
Total Discretionary Funds	\$30,334,800	\$32,179,200	\$1,844,400	6.1%
Biennial Program Total	\$65,466,000	\$69,482,800	\$4,016,800	6.1%

23. The bill would provide of \$714,600 SEG in 2023-24 and \$1,457,800 SEG in 2024-25 for the formula allocation component of the program, and \$606,700 SEG in 2023-24 and \$1,237,700 SEG in 2024-25 for the discretionary grants component of the program. This increase in funding may be justified given the potential need for additional local road funding, as well as inflationary demands across transportation programs.

24. In addition, beginning in 2023-24 and each year thereafter, the bill would modify the statutes specifying how funds under the discretionary grants component are divided among local units of government. Under this provision, 35.6% of funds would be used for county trunk highway improvements, 39.0% for town road improvements, and 25.4% for municipal street improvement projects. LRIP discretionary component funds were distributed in these same proportions in previous program cycles. However, the statutes had previously specified amounts, rather than percentages, to be allocated to each local government category. This change would allow increased funding to be provided to the LRIP discretionary component while distributing program funds in consistent proportions and avoiding the need for further statutory changes. [Alternative C1]

25. As discussed earlier under the LRIP-S recommendations, offsetting concerns may exist regarding the ability or desire of local governments to access federal funds versus the potential of a 90%/10% LRIP-S match to dampen demand for the higher federal funding available. The core LRIP program may address each of these concerns. It is a solely state-funded program that would not have federal environmental and wage regulations, while its 50%/50% match requirement could have less of an impact on demand for federal funding. Therefore, the recommendation could be amended to provide annual increases of 8% to the LRIP formula allocation and discretionary grants components, rather than the 4% increases recommended under the bill. This would provide \$1,405,200 SEG in 2023-24 and \$2,922,800 SEG in 2024-25 for the formula allocation component of the program, and \$1,213,400 SEG in 2023-24 and \$2,523,900 SEG in 2024-25 for the discretionary grants component of the program. [Alternative C2]

26. If the recommended funding for LRIP-S is denied, the core LRIP could be provided with increases of \$12,500,000 annually each to the formula allocation and discretionary grants LRIP program components, which would provide total funding of \$50.0 million in the biennium. While the LRIP-S component can cover up to 90% of the total costs of local road improvement projects, these LRIP formula and discretionary components require a higher percentage of local match funds (50%). This alternative would provide additional state funds for local transportation projects while causing a proportionally larger number of projects to be completed under the program, and would also result in project beneficiaries contributing more for road improvement projects that ultimately produce benefits for them, when compared to the LRIP-S component. [Alternative C3]

27. Similar to the reasons discussed regarding the LRIP-S funding recommendation, such as the increased amount of federal funding available for local road and bridge projects and the demands on the transportation fund, the additional recommended funding for the core LRIP formula and discretionary components may not be appropriate at this time. DOT would continue to have total base level funding of \$66.1 million for these program components in the biennium. [Alternative C4]

ALTERNATIVES

A. LRIP-S Component Funding

1. Provide \$50,000,000 SEG annually to the local roads improvement discretionary supplement program. This would establish base level funding of \$50,000,000 SEG for the program that would continue in future years.

ALT A1	Change to Base
SEG	\$100,000,000

2. Provide \$100,000,000 SEG in 2023-24 to the local roads improvement discretionary supplement program.

ALT A2	Change to Base
SEG	\$100,000,000

3. Provide \$25,000,000 SEG annually to the local roads improvement discretionary supplement program. This would establish base level funding of \$25,000,000 SEG for the program that would continue in future years.

ALT A3	Change to Base
SEG	\$50,000,000

4. Take no action.

B. Allocation of LRIP-S Funding

1. In addition to either alternative A1, A2, or A3, specify that funds provided to the LRIP-S program in 2023-24 and all following years be allocated among counties, towns, and municipalities in the same proportions as the LRIP discretionary component.

2. Take no action.

C. LRIP Formula and Discretionary Component Funding

1. Provide the following increases to the local roads improvement program (LRIP): (a) \$714,600 in 2023-24 and \$1,457,800 in 2024-25 for the formula allocation component of the program; and (b) \$606,700 in 2023-24 and \$1,237,700 in 2024-25 for the discretionary grants

component of the program. This would represent a 4% increase each year in the base level of funding currently provided for the program. Specify that, of the funding provided to the LRIP discretionary component, 35.6% be provided for county truck highway improvements, 39.0% be provided for town road improvements, and 25.4% be provided for municipal street improvements.

ALT C1	Change to Base
SEG	\$4,016,800

2. Provide the following increases to the local roads improvement program (LRIP): (a) \$1,405,200 in 2023-24 and \$2,922,800 in 2024-25 for the formula allocation component of the program; and (b) \$1,213,400 in 2023-24 and \$2,523,900 in 2024-25 for the discretionary grants component of the program. This would represent an 8% increase each year in the base level of funding currently provided for the program. Specify that, of the funding provided to the LRIP discretionary component, 35.6% be provided for county truck highway improvements, 39.0% be provided for town road improvements, and 25.4% be provided for municipal street improvements.

ALT C2	Change to Base
SEG	\$8,065,300

3. Provide \$12,500,000 SEG annually to the LRIP formula allocation component and \$12,500,000 SEG annually to the LRIP discretionary grants component. This would establish total base level funding of \$25,000,000 SEG for the program that would continue in future years. Specify that, of the funding provided to the LRIP discretionary component, 35.6% be provided for county truck highway improvements, 39.0% be provided for town road improvements, and 25.4% be provided for municipal street improvements.

ALT C3	Change to Base
SEG	\$50,000,000

4. Take no action.

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