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Joint Committee on Finance

Paper #777

Local Government Project Development and Technical Assistance (Transportation – Local Transportation Assistance)

[LFB 2023-25 Budget Summary: Page 636, #12]

CURRENT LAW

The Department of Transportation (DOT) operates several local transportation assistance programs that provide federal funds to local governments through grants for transportation projects, including (a) the surface transportation program (STP), which allocates federal funds to complete a variety of improvements to federal-aid eligible roads and streets; (b) the local bridge improvement assistance (local bridge) program, which provides grants using both state and federal funds to rehabilitate and replace bridges under local governments' jurisdiction; (c) the transportation alternatives program (TAP), which funds non-motorized vehicle transportation projects; and (d) the congestion mitigation and air quality (CMAQ) improvement program, which provides grants for projects to reduce transportation-related air pollution or reduce traffic congestion.

DISCUSSION POINTS

Background

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 aid and assistance programs that provide financial assistance to local governments to help them maintain the transportation infrastructure under their jurisdiction.

2. DOT operates four local transportation assistance programs that provide federal funds

to local governments: STP, the local bridge program, TAP, and CMAQ. The federal Infrastructure Investment and Jobs Act (IIJA), enacted in November, 2021, increased the amount of federal transportation funds that are distributed to states over the act's five-year lifespan (federal fiscal years 2022-2026). As a result, the amount of funding provided for these programs increased beginning in 2021-22. Table 1 shows the amount of funding appropriated to these four programs in each biennium since 2015-17, as well as the amounts recommended for 2023-25 under Assembly Bill 43/Senate Bill 70 (AB 43/SB 70). Note that the local bridge program is funded with both state and federal funds, but the table only displays the federal funds appropriated to the program. As shown in the table, the biennial federal funding provided under these programs increased by 118.1% in 2021-23 following the enactment of IIJA, and would remain at elevated levels in 2023-25 under AB 43/SB 70, as the state is expected to continue receiving additional federal funds under IIJA in both years of the biennium.

TABLE 1

**Federal STP, Local Bridge Program, TAP and CMAQ Funding
(\$ in Millions)**

	<u>2015-17</u>	<u>2017-19</u>	<u>2019-21</u>	<u>2021-23</u>	<u>2023-25*</u>
STP	\$134.5	\$134.4	\$134.5	\$257.0	\$268.8
Local Bridge Program	48.8	48.7**	48.8	154.7	119.2
TAP	14.1	14.1	14.1	35.6	36.3
CMAQ	<u>21.4</u>	<u>21.4</u>	<u>21.4</u>	<u>29.9</u>	<u>30.4</u>
Total	\$218.8	\$218.6	\$218.8	\$477.2	\$454.7
% Change		-0.1%	-0.1%	118.1%	-4.7%

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

**Amount shown for 2017-18 does not include \$8.6 million FED provided under a DOT adjustment plan to allocate additional federal highway aid, approved by the Joint Committee on Finance in June, 2018.

3. This paper discusses two provision of Assembly Bill 43/Senate Bill 70 (AB 43/SB 70) to provide funding to assist local governments with federally-funded DOT local assistance grant programs: (a) additional funding for technical assistance and pre-project costs for projects funded by federal grants; and (b) additional funds to assist local governments with matching funds under the transportation alternatives program.

A. Local Government Project Development and Technical Assistance

4. While the increased level of federal grant funding has been and will continue to be distributed to local governments through DOT's local transportation assistance programs following the enactment of IIJA, local governments must successfully complete the process of applying for federal grants in order to access these funds. The Department indicates that this process may limit or prevent local governments from accessing federal funding, particularly for smaller communities, which may not have full-time staff to research and apply for grants, or possess limited financial

capacity to hire engineers or contractors to plan, budget, and design projects. The Department also indicates that a lack of internet access, inadequate technical expertise, and limited understanding of the federal grant application process are additional barriers that could prevent local governments from applying for and accessing funding. The Department currently provides a limited level of staff support to local sponsors who have questions on federal grants.

5. Each year, in addition to the previously mentioned sources of federal funding that DOT receives for transportation purposes, DOT also receives federal redistribution aid, which is provided from any federal transportation aid amounts that other states have not obligated by the end of the federal fiscal year (September 30). Accordingly, federal law requires that all of the funding provided under the STP, TAP, and CMAQ programs must be obligated by September 30, of the year in which it is received. If DOT fails to obligate funding in these programs by the September 30 deadline, DOT can be penalized by receiving lesser amounts of redistribution aid later in the year. Thus, if DOT receives an insufficient number of deliverable applications under the STP, TAP, and CMAQ programs to obligate all of its federal aid in a given fiscal year by September 30, the state could essentially "lose out" on an equivalent amount of federal funding via the redistribution aid process. This is a concern, given the increased level of funding available for DOT's local assistance programs, if local governments are unable to generate a sufficient level of grant applications for federal funding due to limited administrative capacity.

6. AB 43/SB 70 would create a new SEG appropriation, and provide \$4,000,000 annually to assist local governments with federal grant applications for applicable DOT local assistance programs. The Department indicates that \$2,500,000 annually would be used to provide technical assistance, project administration, and project oversight to local governments, which would be performed either directly by the Department, or through contracted assistance by counties, metropolitan planning organizations, or local government associations. The remaining \$1,500,000 annually would be used to assist local governments with pre-project costs such as project planning, budgeting, and design. This program could improve the local accessibility of federal transportation funds, particularly those with limited administrative capacity, and also further ensure that DOT meets its annual federal funding obligation requirements. In addition, providing technical assistance and project oversight to local governments could improve the design, implementation, and ultimate impact of local transportation projects. [Alternative A1]

7. While DOT's federal funding could be jeopardized if it receives an insufficient number of applications from local governments, evidence suggests that this may not have been an issue when DOT awarded its first tranches of IJJA funds under the STP program. For example, to award additional IJJA funds received in 2022-23, and to identify a pipeline of projects that could receive federal funds in future years, DOT administered a 2023-26 supplemental STP solicitation in June, 2022. While data on program demand are unavailable from the two largest categories of local governments in the program, data are available for local government recipients with populations of less than 50,000 (STP-Local, STP-Rural, and the STP-Urban 5,000 to 50,000 subcomponent). The STP 2023-26 solicitation awarded \$131.5 million through 81 grants to local governments under these categories in the 2023-26 grant cycle. However, the Department received 919 applications for over \$1.2 billion in program funding. This suggests that DOT may have sufficient demand for projects in the STP program for subsequent grant cycles, including for smaller units of local government, as

specific allocations of funding are provided for areas with small population sizes under STP. However, data on the distribution of the applications across the population groups is not known.

8. Small municipalities that may have difficulty accessing federal funding for road projects from STP are also eligible to receive project funding from DOT's local roads improvement (LRIP) program. Similar to STP, LRIP provides grants for capital improvements on existing local roads. However, LRIP awards grants using state funds, which allows applicants to avoid the federal grant application process, which may be more onerous. LRIP has been provided with a biennial funding level of \$66.0 million since the 2017-19 biennium, but requires a local match rate of 50% compared to the 20% rate under STP. However, the 2019-21 and 2021-23 budgets respectively appropriated additional biennial funding of \$90.0 and \$100.0 million to create the LRIP-supplemental program, which funded additional LRIP-eligible projects and requires an even lower 10% local match rate. AB 43/SB 70 contains a separate request to continue the LRIP-supplemental program in the 2023-25 biennium by providing \$50.0 million annually, which would also establish an ongoing base level of funding to continue the program in future years.

9. In addition, 2023 Senate Bill 247 would create a new LRIP component, the agricultural roads improvement program, that would award grants for improvement to agricultural road facilities, and would provide \$150.0 million to the program in 2023-24. The bill would define agricultural road facilities as highways that are functionally classified as local roads or minor collectors that provide access to agricultural lands used for the production of agricultural goods that are used by more than one agricultural producers, and are also subject to posted weight limitations. Given these program constraints, this program would likely only apply to more rural town or county roads. The program would provide 100% of recipients' project costs. SB 247 would also require DOT to develop a simple and clear application process that is reasonably accessible for political subdivisions with limited staffing resources, including an application that does not exceed two pages in length.

10. Local governments that are unable or unwilling to apply for grants from DOT's federally-funded local transportation assistance programs may still be able to receive funding from LRIP or the new agricultural road facilities program. Given the potential availability of this additional funding for local roads, and particularly the focus of SB 247 on rural town and county roads, federal project aid may not be as much of a focus for small municipal governments. Thus, the Committee could choose to amend the AB 43/SB 70 recommendation by providing \$2.0 million SEG annually, rather than \$4.0 million for assisting local governments with federal grant applications. [Alternative A2]

11. Federal law generally requires that recipients of federal transportation funding provide a 20% match on the total amount of funding provided for the project. Thus, as the state has begun receiving additional federal funding under IIIJA, the corresponding total 20% local match funding has also been required to increase. Table 4 indicates the amount of federal funding recommended for DOT local assistance programs under AB 43/SB 70, as well as the total local matching funds that would be expected to be required for these programs under the federal 20% match requirement. DOT has SEG-L appropriations for its local transportation assistance programs reflecting these matching requirements.

TABLE 4

Federal Local Transportation Assistance and Estimated Local Match Funding Under the Bill

	AB 43/SB 70		Estimated	
	Recommended FED		20% Local Match	
	<u>2023-24</u>	<u>2024-25</u>	<u>2023-24</u>	<u>2024-25</u>
Surface Transportation Program	\$133,789,900	\$135,005,500	\$33,447,500	\$33,751,400
Local Bridge Improvement Program	64,619,000	54,619,000	16,154,800	13,654,800
Transportation Alternatives Program	18,018,900	18,238,300	4,504,700	4,559,600
CMAQ	<u>15,180,200</u>	<u>15,269,500</u>	<u>3,795,100</u>	<u>3,817,400</u>
Total	\$231,608,000	\$223,132,300	\$57,902,100	\$55,783,200

12. Federal requirements for matching funds may also constrain local governments' ability to access the additional federal transportation funding that is available under IJJA, as some local governments may be unable or unwilling to supply the matching funds that would be required for federal grants, particularly for larger projects that would require more a more sizable match. To provide assistance with local match funds, the Committee could approve the AB 43/SB 70 recommendation to create the technical assistance and pre-project costs program and provide the program with \$4.0 million SEG annually, while specifying that \$2.0 million annually of the funds be used to assist local governments with matching funds for federal grants. This would approve the recommended funding, while amending the appropriation uses to allow DOT an additional means to assist local governments with accessing federal grant funds. [Alternative A3]

13. AB 43/SB 70 would make additional local road funding available for local governments via the LRIP-supplemental program, which requires a less onerous project application process and local match rate than federally-funded programs such as STP. In addition, SB 247, if enacted, would also provide \$150.0 million for the agricultural roads improvement program, which would include a simplified application process and require no local match. Because these programs could make additional funding available to small, rural local units of government for local road projects in the 2023-25 biennium, the need for further assistance to local governments for federal program applications may not be necessary. Funding for this program could also be delayed until a decision is made on the LRIP-S budget recommendation and the agricultural roads improvement program under SB 247. [Alternative A4]

B. Transportation Alternatives Program Matching Funds

14. As shown in Table 1, AB 43/SB 70 would provide \$\$36.3 million FED for TAP in the 2023-25 biennium. In addition to this recommendation, the Administration indicates that it intended to appropriate additional funding of \$1,200,000 SEG annually to TAP in the 2023-25 biennium. The Administration had planned to include this recommendation in AB 43/SB 70, but the recommendation was not ultimately included due to an error. On April 27, 2023, the Administration specified in an errata letter that it intended to include \$1.2 million SEG annually in funding for TAP in the bill.

15. Local governments receiving TAP grants are required to provide a minimum 20% match

on the funds received. The Administration indicates that the \$1.2 million SEG each year would assist local governments in meeting these matching requirements. As discussed earlier, these funds may provide particular benefit to communities with smaller population sizes, which may have limited financial capacity to provide matching funds for projects. As shown in Table 4, estimated local match funding for TAP would be \$4.5 million in 2023-24 and \$4.6 million in 2024-25. The recommended SEG funding would supply approximately one-fourth of these required matching program funds. The recommendation would also result in \$1.2 million being included as base level funding for the program, which could allow the Department to continue providing SEG matching funds for TAP in future years. This would reduce local governments' financial burden associated with implementing TAP projects, and could incentivize additional local governments to apply for these federal program grants. [Alternative B1]

16. The separate AB 43/SB 70 requests to provide technical assistance and funding for pre-project costs to local governments for federal grant programs would already provide some assistance for local governments applying for federal grant funds, including TAP grants. In addition, the Department has received a sufficient level of demand for program grants in past years, and has demonstrated the capability to operate the program successfully without SEG funding being provided. Thus, the recommended SEG funding to assist with TAP local match requirements may not be necessary. The decision to provide this SEG funding could also be delayed until a decision is made on the recommendation to provide \$100.0 million to the LRIP-S program or the SB 247 agricultural roads improvement program, both of which would provide additional funding for local transportation projects at a low match rate. In addition, depending on the Committee's decision on providing SEG funding for local match under Alternative A3, the \$1.2 million in recommended funding may not be needed. [Alternative B2]

ALTERNATIVES

A. Local Government Project Development and Technical Assistance

1. Create a new SEG appropriation, and provide \$4,000,000 SEG annually to assist local governments with grant applications for federally-funded local transportation assistance programs by providing technical assistance and support with pre-project costs. This would establish base level funding of \$4,000,000 SEG for the program in future years.

ALT A1	Change to Base
SEG	\$8,000,000

2. Create a new SEG appropriation, and provide \$2,000,000 SEG annually to assist local governments with grant applications for federally-funded local transportation assistance programs by providing technical assistance and support with pre-project costs. This would establish base level funding of \$2,000,000 SEG for the program in future years.

ALT A2	Change to Base
SEG	\$4,000,000

3. Create a new SEG appropriation, and provide \$4,000,000 SEG annually to the program. Expand the use of the appropriation to include federal match assistance, and specify that \$2,000,000 annually of the funds provided in 2023-25 be used to assist local governments with matching funds for federal grants. This would establish base level funding of \$4,000,000 SEG for the program in future years.

ALT A3	Change to Base
SEG	\$8,000,000

4. Take no action.

B. Transportation Alternatives Program Matching Funds

1. Provide \$1,200,000 SEG annually to the transportation alternatives program to assist small communities with meeting federal matching requirements for program grants.

ALT B1	Change to Base
SEG	\$2,400,000

2. Take no action.

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