



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 29, 2001

Joint Committee on Finance

Paper #912

Local Roads Improvement Program -- Basic Allocation (DOT -- Local Transportation Projects)

[LFB 2001-03 Budget Summary: Page 658, #4]

CURRENT LAW

The local roads improvement program (LRIP) provides up to 50% of the cost of capital improvements on local roads and streets. The program is divided into two principal components: (a) a discretionary component, which awards funds to high-cost projects through a competitive application process; and (b) a basic allocation component, which distributes funds to local governments by formula. Each fiscal year, DOT is required to set aside amounts for the discretionary component of the program and then distribute the remaining funds by formula. Funds are distributed on a biennial basis under the program.

Funds in the basic allocation component of the program are divided as follows: (a) 43% for counties; (b) 28.5% for municipalities (defined as cities and villages); and (c) 28.5% for towns. Of the amounts reserved for counties, each county is given an entitlement of funds, of which 60% is based on population and 40% is based on county highway mileage. No county may receive less than 0.5% of the total amount distributed to the counties under the basic allocation component of the program.

Under the municipal subprogram, cities and villages with a population of 20,000 or more each receive an entitlement of funds, of which 50% is based on population and 50% is based on street mileage. Cities and villages with a population under 20,000 do not receive their own entitlement. Instead, all such cities and villages in a county share an entitlement of funds based on the same formula that is used for municipalities with a population of 20,000 or more. Representatives of the smaller municipalities in each county form a committee to determine which municipal street projects will be approved using their county's municipal entitlement.

Under the town subprogram, the towns in each county share an entitlement of funds based on town road mileage. Representatives of the towns in each county form a committee to determine which town road projects will be approved using their county's town entitlement.

Total base funding for the program is \$21,331,200 SEG and \$21,331,200 SEG-L, but the annual amount of SEG funds available for distribution under the basic allocation component, after deductions for the discretionary component, is \$15,081,200. The SEG-L amount represents the local match required under the program.

GOVERNOR

Provide \$575,900 SEG and \$575,900 SEG-L in 2001-02 and \$1,233,100 SEG and \$1,233,100 SEG-L in 2002-03 for the basic allocation component of the program.

DISCUSSION POINTS

1. The funding that the bill would provide under this item would be distributed under the basic allocation formula component of the program. A separate item, discussed in LFB Paper #911, would provide additional funds for distribution in the discretionary component of the program. The amounts recommended for the basic allocation component represent inflationary increases of 2.7% in 2001-02 and 3.0% in 2002-03, using the total program size of \$21,331,200 as a base for the calculation.

2. Since this funding would be distributed only in the basic allocation component of the program and separate funding would be provided for the discretionary component, it could be argued that the proper base for calculating an inflationary adjustment would be only the amount that is distributed by formula under the basic allocation component, or \$15,081,200. The funding in the bill represents increases of 3.8% in 2001-02 and 4.2% in 2002-03, using this as a basis of calculation.

3. Current projections of inflation by Standard and Poor's DRI are 2.7% in 2001-02 and 1.8% in 2002-03. Providing inflationary increases for the program using these estimates and including only the basic allocation component as the base would require increases to the base of \$407,200 SEG in 2001-02 and \$686,000 SEG in 2002-03, which would be less than the amount provided by the bill by \$168,700 SEG in 2001-02 and \$547,100 SEG in 2002-03.

4. In making decisions regarding how much funding to provide for various transportation programs, a comparison of the funding increases provided to these programs over the past several biennia may be helpful. The following table compares the rate of growth in funding since 1996-97 that would result if the funding levels in the bill were approved. The local roads improvement program is included with other local road programs. The percentages shown include federal, state and revenue bond funds.

**Percentage Increase in State and Federal Funding for Various Transportation Programs
(Fiscal Years 1997-2003)**

<u>Program</u>	<u>Governor</u>
Major Highway Development*	46.1%
Mass Transit Aid	45.7
State Highway Rehabilitation**	44.1
Local Road Programs***	29.8
State Highway Maintenance	23.3

* Adjusted to reflect the amount that the Governor intended to provide in 2002-03, which is less than the amount actually in the bill by \$4,529,100.

** Does not include funding provided in a separate appropriation for the reconstruction of the Marquette Interchange. If this funding were included, the increase for the rehabilitation program would be 68.7%.

*** Includes general transportation and connecting highway aid, local roads improvement program and local bridge and highway improvement assistance.

5. The preceding table shows that the local road programs have grown at a slower rate than most of the other transportation programs. Some have argued that the budget should be modified to produce a more even rate of growth between transportation programs, which may mean above-inflationary increases for the local roads improvement program.

6. The following table shows the amount of base funding increases that would be needed to fund program increases at various percentages, using the basic allocation component of the program as the basis for the calculation. The change to the amounts in the bill are also included.

Annual Percentage Increase	<u>Change to Base</u>		<u>Change to Bill</u>	
	<u>2001-02</u>	<u>2002-03</u>	<u>2001-02</u>	<u>2002-03</u>
0%	\$0	\$0	-\$575,900	-\$1,233,100
1	150,800	303,100	-425,100	-930,000
2	301,600	609,300	-274,300	-623,800
3	452,400	918,400	-123,500	-314,700
4	603,200	1,230,600	27,300	-2,500
5	754,100	1,545,900	178,200	312,800
6	904,900	1,864,100	329,000	631,000
2.7/1.8*	407,200	686,000	-168,700	-547,100

* Current inflation projections.

7. The Committee may want to make a decision on the funding for the basic allocation component of the local roads improvement program in conjunction with its decision on the funding

provided for the general transportation aid (GTA) program. LRIP differs from GTA in how funds are distributed. Under the LRIP formulas, funds are distributed based on population and road mileage, whereas GTA funds are distributed either on the basis of average transportation costs or mileage. Also, unlike GTA, in which all towns, municipalities and counties receive funds, towns and municipalities that have a population of less than 20,000 must compete with other towns or small municipalities in their county for funds and, therefore, may not receive any funds in a particular biennium.

8. LRIP also differs from GTA in respect to the type of activities that are funded. LRIP projects must be improvements to roads or bridges that have at least a ten-year life. Eligible costs under GTA include these types of improvements, but also include non-capital improvements, such as road maintenance, including patching and plowing, as well as a portion of traffic lighting and police costs. In this respect, GTA has a broader scope than LRIP.

ALTERNATIVES TO BILL

1. Approve the Governor’s recommendation to provide \$575,900 SEG and \$575,900 SEG-L in 2001-02 and \$1,233,100 SEG and \$1,233,100 SEG-L in 2002-03 for the basic allocation component of the local roads improvement program.

2. Modify the Governor’s recommended funding level provided for the program as shown in the table to provide the percentage increases shown (both SEG and SEG-L would be adjusted by these amounts). These alternatives use just the basic allocation component as the basis for the calculation.

	Annual Percentage Increase	Change to Bill		Biennial Change
		2001-02	2002-03	
a.	0%	-\$575,900	-\$1,233,100	-\$1,809,000
b.	1	-425,100	-930,000	-1,355,100
c.	2	-274,300	-623,800	-898,100
d.	3	-123,500	-314,700	-438,200
e.	4	27,300	-2,500	24,800
f.	5	178,200	312,800	491,000
g.	6	329,000	631,000	960,000
h.	2.7/1.8	-168,700	-547,100	-715,800

Prepared by: Jon Dyck