



Legislative Fiscal Bureau

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

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Joint Committee on Finance

Paper #755

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

[LFB 2003-05 Budget Summary: Page 417, #1]

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.

DOT is required to set aside a total of \$7,000,000 annually from the SEG appropriation for the local roads improvement program for the discretionary component of the program, as follows: (a) \$750,000 for town road improvements with a total estimated cost of \$100,000 or more; (b) \$5,250,000 for county highway improvements with a total estimated cost of \$250,000 or more; and (c) \$1,000,000 for municipal street improvements with a total estimated cost of \$250,000 or more.

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 of the basic allocation component, 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 \$23,945,300 SEG and \$23,945,300 SEG-L, which represents the local match required under the program

GOVERNOR

Provide \$598,600 SEG and \$598,600 SEG-L in 2003-04 and \$1,212,200 SEG and \$1,212,200 SEG-L in 2004-05 for the local roads improvement program.

DISCUSSION POINTS

1. The funding increase in the bill for LRIP would provide increases of 2.5% annually for the program, relative to the amount in the 2002-03 appropriation. As noted above, amounts in the LRIP appropriation that are not deducted for the discretionary component of the program are distributed in the basic allocation component of the program. Since the statutory allocations to the discretionary subcomponents of the program would not be changed by the bill, all of the additional funding provided by the bill would go to the basic allocation component of the program.

2. The 2001-03 biennial budget included a provision that required DOT to deduct a total of \$2,500,000 from LRIP in order to provide a portion of the state funding used to make a grant to the City of Milwaukee for the reconstruction of West Canal Street. This deduction was to be taken from each component of the program in proportion to its share of the total program.

3. The following two tables show the funding for each subcomponent of the program, first during the 2001-03 biennium, and second, under the bill. The first table includes the effect of the deduction for the West Canal Street grant. As noted, the distribution of funds is done on a biennial basis, so the biennial total is shown to allow for a comparison of these amounts. Although the table shows the allocation of amounts appropriated during each biennium, the actual amount available for distribution may be higher since the LRIP appropriation is a continuing appropriation, and, therefore, unencumbered balances from previous biennia would be included in the distribution. The totals shown in the first two columns of the first table equate to the amounts in the LRIP

appropriation in those years.

Distribution of Funds to LRIP Subcomponents During 2001-03 Biennium

	<u>2001-02</u>	<u>2002-03</u>	<u>Biennial Total</u>	<u>West Canal Street Deduction*</u>	<u>Revised Biennial Distribution*</u>
Discretionary Component					
Counties	\$5,250,000	\$5,250,000	\$10,500,000	\$559,300	\$9,940,700
Municipalities	1,000,000	1,000,000	2,000,000	106,500	1,893,500
Towns	750,000	750,000	1,500,000	79,900	1,420,100
Basic Allocation Component	\$15,986,100	\$16,945,300	\$32,931,400	\$1,754,200	\$31,177,200
Total	\$22,986,100	\$23,945,300	\$46,931,400	\$2,500,000	\$44,431,400

*Totals do not add due to rounding.

Proposed Distribution of Funds to LRIP Subcomponents Under Governor's Bill

	<u>2003-04</u>	<u>2004-05</u>	<u>Biennial Total</u>
Discretionary Component			
Counties	\$5,250,000	\$5,250,000	\$10,500,000
Municipalities	1,000,000	1,000,000	2,000,000
Towns	750,000	750,000	1,500,000
Basic Allocation Component	\$17,543,900	\$18,157,500	\$35,701,400
Total	\$24,543,900	\$25,157,500	\$49,701,400

4. Although the bill would increase the appropriation for the program by 2.5% annually, relative to the base year, the biennial nature of the program and the one-time deduction for the West Canal Street project mean that the resulting increase in the amount of funding actually distributed under the program, relative to the amount distributed in 2001-03, would be greater than the 2.5% annual increase. As shown in these tables, biennial funding for the basic allocation component of the program would go from \$31,177,200 in 2001-03 to \$35,701,400 in 2003-05 under the bill. This amounts to a biennial increase of 14.5%, which is approximately equal to a 7.0% compounded, annual increase in funding.

5. As noted above, the bill would not increase the statutory amounts that DOT is required to set aside from the LRIP appropriation for the discretionary component of the program. However, since the West Canal Street provision reduced the amount that was distributed under the discretionary programs on a one-time basis during the 2001-03 biennium, maintaining the statutory amounts for the discretionary programs, which the bill would do, would result in an increase in the

amount distributed to these programs during the 2003-05 biennium. The restoration of the full statutory distribution for the discretionary programs in 2003-05 would result in a biennial increase of 5.6% over the amount distributed in 2001-03, which is equal to an increase of slightly less than 2.8% annually.

6. Although the increases provided by the bill for LRIP exceed the rate of inflation, these increases may help to mitigate reductions in other state programs that provide assistance to local governments. For instance, while the total amount of funding for LRIP projects would increase by \$5,270,000 under the bill, compared to available 2001-03 funding, federal funding distributed to local highway and bridge projects would decline by a total of \$18,908,300, relative to the amount budgeted during the 2001-03 biennium for these programs.

7. In the context of funding decreases for many state programs, however, it may be appropriate to consider holding spending for LRIP at the base level. The following table shows the distribution of funding for the LRIP components if no increases are provided to the appropriation.

Distribution of Funds to LRIP Subcomponents Under a No Increase Scenario

	<u>2003-04</u>	<u>2004-05</u>	<u>Biennial Total</u>
Discretionary Component			
Counties	\$5,250,000	\$5,250,000	\$10,500,000
Municipalities	1,000,000	1,000,000	2,000,000
Towns	750,000	750,000	1,500,000
Basic Allocation Component	\$16,945,300	\$16,945,300	\$33,890,600
Total	\$23,945,300	\$23,945,300	\$47,890,600

8. Funding for the basic allocation component of the program (\$33,890,600) would be higher under this scenario than the amount distributed in 2001-03 (\$31,177,200, from the first table under Point #3). The biennial increase under this scenario would be 8.7%. Biennial funding for the discretionary component would remain at \$14,000,000, which is a 5.6% increase.

9. A decision to continue funding for transportation programs at the levels actually made available in the base year would result in a reduction to LRIP funding levels. Assuming that the amount set aside for the West Canal Street project is deducted proportionally from both years of the 2001-03 biennium (\$1,275,500 deduction from the base year), total funding of \$22,669,800 was available for LRIP projects in the base year. Retaining this level in both years of the 2003-05 biennium would result in a 2.0% biennial increase compared to funding actually available in the 2001-03 biennium. Compared to the bill, this would result in a biennial reduction of \$4,361,800.

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$598,600 SEG and \$598,600 SEG-L in 2003-04 and \$1,212,200 SEG and \$1,212,200 SEG-L in 2004-05 for the local roads improvement program.

2. Delete provision.

<u>Alternative 2</u>	<u>SEG</u>	<u>SEG-L</u>	<u>TOTAL</u>
2003-05 FUNDING (Change to Bill)	- \$1,810,800	- \$1,810,800	- \$3,621,600

3. Delete provision. In addition, decrease funding by an additional \$1,275,500 SEG and \$1,275,500 SEG-L annually to set program funding in each year of the 2003-05 biennium at the level actually available in the 2002-03 base year. Require DOT to apply the annual reduction of \$1,275,500 in SEG funding proportionally to all LRIP program components.

<u>Alternative 3</u>	<u>SEG</u>	<u>SEG-L</u>	<u>TOTAL</u>
2003-05 FUNDING (Change to Bill)	- \$4,361,800	- \$4,361,800	- \$8,723,600

Prepared by: Jon Dyck