



## Legislative Fiscal Bureau

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May 31, 2007

Joint Committee on Finance

Paper #770

### General Transportation Aids (Transportation -- Local Transportation Aids)

#### *Bill Agency*

[LFB 2007-09 Budget Summary: Page 535, #1]

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#### **CURRENT LAW**

General transportation aid is paid to county and other local governments (cities, villages, and towns) to assist in the maintenance, improvement, and construction of local roads. General transportation aid distribution amounts for 2007 and thereafter are \$93,682,400 for counties and \$294,736,000 for municipalities. The mileage aid rate is set at \$1,899 for 2007 and thereafter. General transportation aid payments are made from two sum certain, transportation fund appropriations.

#### **GOVERNOR**

Provide increased funding for general transportation aids as follows:

a. *County Aid.* Provide \$1,855,200 SEG in 2007-08 and \$3,747,600 SEG in 2008-09 to provide a total of \$94,619,200 SEG in 2007-08 and \$96,511,600 SEG in 2008-09. Set the calendar year distribution at \$95,556,000 for calendar year 2008 and \$97,467,100 for calendar year 2009 and thereafter. This represents a 2.0% annual calendar year increase.

b. *Municipal Aid.* Provide \$5,836,900 SEG in 2007-08 and \$11,790,500 SEG in 2008-09 to provide a total of \$297,683,400 SEG in 2007-08 and \$303,637,000 SEG in 2008-09. Set the calendar year distribution at \$300,630,700 for calendar year 2008 and \$306,643,300 for calendar year 2009 and thereafter. This represents a 2.0% annual calendar year increase.

Establish the mileage aid rate at \$1,937 for calendar year 2008 and \$1,976 for calendar year 2009 and thereafter, which represents a 2.0% annual increase. Repeal the statutory references to 2004 and 2005 calendar year aid payment and mileage aid rate amounts.

## **DISCUSSION POINTS**

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. Through 1993, all municipalities and counties were paid from the same appropriation. Effective in 1994, separate appropriations were created for counties and municipalities. There are two basic formulas by which general transportation aid is distributed: (a) share of costs aid; and (b) mileage aid. Counties can receive only share of costs aid, while municipal payments are based on either share of costs aid or mileage aid, whichever is greater.

2. The general transportation aids program is the second largest program in DOT's budget and represents 26.3% of all transportation fund appropriations. The \$93,682,400 provided counties and the \$294,736,000 provided municipalities in 2007 helps offset the cost of local road construction, maintenance, traffic enforcement, and other transportation-related costs on 19,873 miles of county roads, 18,831 miles of city and village roads, and 61,920 miles of town roads.

3. Providing inflationary increases would not keep pace with the recent growth in eligible costs under the program. The average, annual growth in eligible costs under the program over the past six years of reported costs (2000-2005) was 2.5% for municipalities and 2.6% for counties. Providing a percentage increase in funding that is greater than forecasted inflation (2.1% in 2008 and 1.9% in 2009) would assist local governments in funding these higher costs.

4. During the 2003-05 biennium, the general transportation aid program received no increase. The 2005-07 budget provided a 2% annual increase. The level of aid increases, along with growth in eligible costs, has resulted in general transportation aid covering a smaller percentage of local road costs over time. The following table indicates the percentage of eligible, six-year average costs covered by state general transportation aid for counties and municipalities on the share of costs formula as well as the annual increase in general transportation aid.

**Share of Six-Year Average Costs Covered by State Aid and Aid Increases  
(1998-2007)**

| <u>Year</u> | <u>County<br/>Share of Costs %</u> | <u>Municipal<br/>Share of Costs %</u> | <u>Aid<br/>Increase</u> |
|-------------|------------------------------------|---------------------------------------|-------------------------|
| 1998        | 28.2%                              | 22.5%                                 | 11.5%                   |
| 1999        | 27.0                               | 21.2                                  | 0.0                     |
| 2000        | 27.8                               | 22.0                                  | 6.75                    |
| 2001        | 25.9                               | 20.8                                  | 0.0                     |
| 2002        | 25.8                               | 20.6                                  | 3.0                     |
| 2003        | 25.8                               | 20.5                                  | 4.0                     |
| 2004        | 24.6                               | 19.5                                  | 0.0                     |
| 2005        | 23.2                               | 18.7                                  | 0.0                     |
| 2006        | 22.9                               | 18.6                                  | 2.0                     |
| 2007        | 22.5                               | 18.3                                  | 2.0                     |

5. As indicated in the table, the share of transportation costs covered by state funds has declined from 28.2% for counties and 22.5% for municipalities in 1998 to 22.5% for counties and 18.3% for municipalities in 2007. During the late 1990's, counties and municipalities received significant increases in general transportation aids. As a result, aid increases generally kept up with the increases in local transportation costs over the period. Conversely, since 2000, with fewer or smaller annual increases in general transportation aids provided, aid payments have not kept up with increases in costs, and the percentage of eligible costs covered by state aid has steadily declined.

6. DOT estimates that under the proposed 2.0% annual funding increase in the bill, the share of costs covered by state general transportation aid would be 22.1% in 2008 and 21.8% in 2009 for counties and 18.3% in both 2008 and 2009 for municipalities.

7. Under the bill as submitted, the estimated biennium-ending balance in the transportation fund was \$30,919,600. (Under the revenue reestimate described in LFB Issue Paper #760, the ending balance under SB 40 is now estimated at \$99,814,900). Subsequent to the introduction of the budget bill, the Department of Administration issued an errata, indicating that the Governor's intent was to leave a balance of approximately \$3.0 million. Consequently, the Governor recommends that a portion of the \$30.9 million be used to provide additional increases to the local transportation aid program, as well as the state highway rehabilitation and major highway development programs.

8. State transportation aid covers only a portion of county and municipal transportation-related costs. Therefore, most of the costs are covered by local general fund taxes and state shared revenues. Correspondingly, the transportation aid increases could be seen as a means to mitigate the impact of providing limited increases in other state aid programs that provide funds to counties and municipalities. In addition, providing a general transportation aid increase could help offset the impact of any local levy limit imposed on counties and municipalities

(especially town governments, whose transportation costs make up a large percentage of their total governmental costs).

9. Some have contended that because revenues to the transportation fund are paid from citizens who travel roads throughout the state, a consistent portion of those revenues should be redistributed to local units of government to assist in maintaining their transportation infrastructure. In 2006-07, local transportation aid programs, including the general transportation aid, local road improvement, and mass transit assistance programs and other transportation programs that provide assistance to local units of government, were funded at a level equal to 38.5% of net transportation fund revenues. Under the bill, as introduced, these programs would receive a smaller percentage share of net transportation fund revenues, estimated at 35.4% in 2007-08 and 34.6% in 2008-09.

10. The following table shows the funding amounts associated with several annual percentage rate increases for the general transportation aid program.

| <u>Annual %<br/>Increase</u> | <u>Above-Base Increase</u> |                |
|------------------------------|----------------------------|----------------|
|                              | <u>2007-08</u>             | <u>2008-09</u> |
| 1.0%                         | \$5,750,000                | \$9,653,600    |
| 2.0 (Bill)                   | 7,692,100                  | 15,538,100     |
| 3.0                          | 9,634,300                  | 21,461,600     |
| 4.0                          | 11,576,300                 | 27,423,800     |
| 5.0                          | 13,518,400                 | 33,424,800     |
| 6.0                          | 15,460,500                 | 39,464,700     |

11. Since aids are provided on a calendar-year basis, with quarterly payments made during the year, only one-half of any calendar year 2009 increase would be paid in 2008-09. The remaining portion of any calendar year 2009 increase would have to be funded in each year of the next biennium. This future funding commitment would total \$3,961,800 per year under the 2.0% annual increase included in the bill. If no increase is provided over the 2008 statutory distribution level, no future funding commitment would exist.

12. Similarly, if no funding increase is provided over the 2006-07 base level funding amount, the appropriation levels for the 2007-09 biennium would not be sufficient to fund the 2% increase in the 2007 statutory distribution level under current law. In order to fully fund the 2007 increase, SB 40 provides \$918,400 annually for counties and \$2,889,500 annually for municipalities. If no increases to base level funding are provided, DOT would have to prorate payments in 2007 and thereafter at 99%.

13. Another option that the Committee could consider is the recommendation of the Joint Legislative Committee on Transportation Needs and Financing, commonly known as the "Road to the Future Committee." In December, 2006, that Committee issued its final report, recommending funding increases in several key surface transportation programs. For the general transportation aid program, the report recommended providing funding to return to earlier levels of support related to average highway-related costs (30% for counties and 24% for municipalities),

reduced by the funding that has since has provided under the local roads improvement program. To do this, the report recommended adding \$19.1 million to the county distribution and \$49.8 million to the municipal distribution. If this was done effective in 2008, it would require total funding of \$34,450,000 in 2007-08 and \$68,900,000 in 2008-09. Since increases of this magnitude would not be possible under the current maximum payment provision, a one-year suspension of that provision in 2008 would allow the funds to be distributed.

14. Alternatively, the Committee could provide increases, effective in 2008, equal to half of the amounts recommended by the "Road to the Future Committee." Additional amounts could be considered in the 2009-11 biennium. This option would add \$9,550,000 to the county distribution and \$24,900,000 to the municipal distribution. This would require total funding of \$17,225,000 in 2007-08 and \$34,450,000 in 2008-09.

**ALTERNATIVES TO BILL**

1. Approve the Governor's recommendation to fund a 2.0% annual calendar year increase as follows: (a) \$1,855,200 SEG in 2007-08 and \$3,747,600 SEG in 2008-09 for counties; and (b) \$5,836,900 SEG in 2007-08 and \$11,790,500 SEG in 2008-09 for municipalities. Set the calendar year distribution at \$95,556,000 for calendar year 2008 and \$97,467,100 for calendar year 2009 and thereafter for counties and \$300,630,700 for calendar year 2008 and \$306,643,300 for calendar year 2009 and thereafter for municipalities. Establish the mileage aid rate at \$1,937 for calendar year 2008 and \$1,976 for calendar year 2009 and thereafter. Repeal obsolete statutory references to 2004 and 2005 calendar year aid payment and mileage aid rate amounts.

| ALT 1 | Change to Bill<br>Funding | Change to Base<br>Funding |
|-------|---------------------------|---------------------------|
| SEG   | \$0                       | \$23,230,200              |

2. Modify the Governor's recommendation by providing annual general transportation aid increases (SEG) for 2008 and 2009 (and thereafter) at one of the following percentages. Set the county and municipal distributions, establish the mileage aid rate, and change the general transportation aid appropriations as shown below.

| % Annual<br>Increase in Aid | Calendar Year<br>County Distribution |              | SEG Change to Base |             | SEG Change to Bill |              |
|-----------------------------|--------------------------------------|--------------|--------------------|-------------|--------------------|--------------|
|                             | 2008                                 | 2009         | 2007-08            | 2008-09     | 2007-08            | 2008-09      |
| a. 1.0%                     | \$94,619,200                         | \$95,565,400 | \$1,386,800        | \$2,328,300 | -\$468,400         | -\$1,419,300 |
| b. 3.0                      | 96,492,900                           | 99,387,700   | 2,323,700          | 5,176,300   | 468,500            | 1,428,700    |
| c. 4.0                      | 97,429,700                           | 101,326,900  | 2,792,100          | 6,614,300   | 936,900            | 2,866,700    |
| d. 5.0                      | 98,366,500                           | 103,284,800  | 3,260,500          | 8,061,700   | 1,405,300          | 4,314,100    |
| e. 6.0                      | 99,303,300                           | 105,261,500  | 3,728,900          | 9,518,400   | 1,873,700          | 5,770,800    |

|    | % Annual Increase in Aid | Calendar Year Municipal Distribution |               | Calendar Year Rate Per Mile |         | SEG Change to Base |             | SEG Change to Bill |              |
|----|--------------------------|--------------------------------------|---------------|-----------------------------|---------|--------------------|-------------|--------------------|--------------|
|    |                          | 2008                                 | 2009          | 2008                        | 2009    | 2007-08            | 2008-09     | 2007-08            | 2008-09      |
| f. | 1.0%                     | \$297,683,400                        | \$300,660,200 | \$1,918                     | \$1,937 | \$4,363,200        | \$7,325,300 | -\$1,473,700       | -\$4,465,200 |
| g. | 3.0                      | 303,578,100                          | 312,685,400   | 1,956                       | 2,015   | 7,310,600          | 16,285,300  | 1,473,700          | 4,494,800    |
| h. | 4.0                      | 306,525,400                          | 318,786,500   | 1,975                       | 2,054   | 8,784,200          | 20,809,500  | 2,947,300          | 9,019,000    |
| i. | 5.0                      | 309,472,800                          | 324,946,400   | 1,994                       | 2,094   | 10,257,900         | 25,363,100  | 4,421,000          | 13,572,600   |
| j. | 6.0                      | 312,420,200                          | 331,165,400   | 2,013                       | 2,134   | 11,731,600         | 29,946,300  | 5,894,700          | 18,155,800   |

3. Delete the increases recommended by the Governor. Instead, provide \$918,400 SEG annually for counties and \$2,889,500 SEG annually for municipalities to fully fund the calendar year 2007 increase in the biennium.

| ALT 3 | Change to Bill Funding | Change to Base Funding |
|-------|------------------------|------------------------|
| SEG   | -\$15,614,400          | \$7,615,800            |

4. Beginning in 2008, increase the county distribution by \$19,100,000 and increase the municipal distribution by \$49,800,000 to provide the funding recommended by the "Road to the Future Committee." Provide \$9,550,000 SEG in 2007-08 and \$19,100,000 SEG in 2008-09 in the county aid appropriation and \$24,900,000 SEG in 2007-08 and \$49,800,000 SEG in the municipal aid appropriation to fund the distribution increase. Suspend the maximum payment provision in 2008 to allow the increased funds to be distributed. [This alternative could be combined with any of the other alternatives.]

| ALT 4 | Change to Bill Funding | Change to Base Funding |
|-------|------------------------|------------------------|
| SEG   | \$103,350,000          | \$103,350,000          |

5. Beginning in 2008, increase the county distribution by \$9,550,000 and increase the municipal distribution by \$24,900,000 to provide one-half of the funding recommended by the "Road to the Future Committee." Provide \$4,775,000 SEG in 2007-08 and \$9,550,000 SEG in 2008-09 in the county aid appropriation and \$12,450,000 SEG in 2007-08 and \$24,900,000 SEG in the municipal aid appropriation to fund the distribution increase. Suspend the maximum payment provision in 2008 to allow the increased funds to be distributed. [This alternative could be combined with any of the other alternatives.]

| ALT 5 | Change to Bill Funding | Change to Base Funding |
|-------|------------------------|------------------------|
| SEG   | \$51,675,000           | \$51,675,000           |

6. Delete provision. (No increase to base level funding would be provided and payments would be prorated.)

| <b>ALT 6</b> | <b>Change to Bill<br/>Funding</b> | <b>Change to Base<br/>Funding</b> |
|--------------|-----------------------------------|-----------------------------------|
| SEG          | - \$23,230,200                    | \$0                               |

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