



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

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Joint Committee on Finance

Paper #710

General Transportation Aids (Transportation -- Local Transportation Aid)

[LFB 2019-21 Budget Summary: Page 412, #1]

CURRENT LAW

General transportation aid is paid to counties and municipalities (cities, villages, and towns) to assist in the maintenance, improvement, and construction of local roads. General transportation aid distribution amounts for 2019 and thereafter are \$111,093,800 for counties and \$348,639,300 for municipalities. The mileage aid rate is set at \$2,389 per mile for 2019 and thereafter. General transportation aid payments are made from two sum certain, transportation fund appropriations.

GOVERNOR

Provide the following related to the general transportation aids program:

a. *County Aid.* Increase funding by \$2,777,400 SEG in 2019-20 and \$11,109,400 SEG in 2020-21 to fund a 10.0% increase to the calendar year general transportation aid distribution for counties for 2020 and thereafter. The current calendar year distribution for counties is currently equal to \$111,093,800. This would provide a calendar year distribution amount for counties equal to \$122,203,200 for 2020 and thereafter.

b. *Municipal Aid.* Increase funding by \$17,432,000 SEG in 2019-20 and \$34,863,900 SEG in 2020-21 to fund a 10.0% increase to the calendar year general transportation aid distribution for municipalities for 2020 and thereafter. The current calendar year distribution level for municipalities is currently equal to \$348,639,300. This would provide a calendar year distribution amount for municipalities equal to \$383,503,200 for 2020 and thereafter. Increase the mileage aid rate by 10.0% (\$239 per mile), from its current level of \$2,389 per mile to \$2,628 per mile, for calendar year 2020 and thereafter.

Delete the statutory references to prior calendar year funding amounts for counties and municipalities, as well as the prior year mileage aid rate amounts for municipalities.

DISCUSSION POINTS

Background

1. General transportation aids are paid to local governments to assist in the maintenance, improvement, and other costs related to local roads. The current transportation aid formula was created in 1988. Separate appropriations are made for counties and municipalities. There are two basic formulas by which general transportation aid is distributed: (a) share of costs aid, which covers a percentage of six-year average costs (2012 through 2017 for calendar year 2019 payments); and (b) mileage aid, which is based on a statutory mileage aid rate multiplied by a local government's jurisdictional miles. Counties receive only share of costs aid, while municipal payments are based on either share of costs aid or mileage aid, whichever is greater. [The mileage aid rate is mostly received by towns.]

2. After the state highway improvement program, the general transportation aids program is the second largest program in DOT's budget and represents 25.7% of all transportation fund appropriations in 2018-19. The \$111,093,800 provided to counties and the \$348,639,300 provided to municipalities in 2019 under current law helps offset some of the costs of local road improvements, maintenance, traffic enforcement, and other transportation-related costs on 19,900 miles of county roads, 20,500 miles of city and village streets, and 61,600 miles of town roads.

Funding Level

3. The Governor's recommendation for the general transportation aid program would fund a 10.0% increase to the calendar year 2020 general transportation aid distribution for counties and municipalities (including a 10.0% increase to the mileage aid rate). Table 1 indicates the annual change in general transportation aid as well as the percentage of eligible, six-year average costs covered by state general transportation aid for counties and municipalities on the share of costs formula.

TABLE 1
Annual Aid Funding Change and Percent of
Six-Year Average Costs Covered by State Aid
(2008-2017)

Year	County Aid		Municipal Aid*	
	% Change	% of Costs	% Change	% of Costs
2010	2.0	22.2	2.0	17.9
2011	3.0	22.2	3.0	18.0
2012	-9.4	18.8	-6.0	12.9
2013	0.0	19.0	0.0	15.5
2014	0.0	18.2	0.0	15.3
2015	4.0	18.4	4.0	15.9
2016	0.0	17.9	0.0	15.8
2017	0.0	17.5	0.0	15.6
2018	12.9	19.8	8.5	16.9
2019	0.0	19.1	0.0	16.3

*For those local governments receiving aid through the share of costs aid component.

4. As indicated in Table 1, the percentage of transportation costs covered by state funds has declined from 22.2% for counties and 17.9% for municipalities in 2010 to 19.1% for counties and 16.3% for municipalities in 2019. While this is partially due to the 2012 aid reduction, it is also due, in part, to growth in six-year average costs. Over the same period, from 2010 to 2019, six-year average costs have grown 29.4% for counties and 16.7% for municipalities. Comparatively, the aid level during this period increased by 9.6% for counties and 9.3% for municipalities.

5. While contingent on the impact of changes in costs over the six-year average, which would involve dropping 2012 and 2013 costs from that average and adding 2018 and 2019, the proposed funding increase would likely maintain or slightly increase the share of cost percentage shown in Table 1. [Alternative 1] Given that counties and municipalities have been experiencing significant increases in their transportation-related costs that have eroded the percentage of the costs covered by state aid over time, the Governor's recommendation may be seen as appropriate. In addition, slower-growing jurisdictions, limited by levy limits tied to new construction, have also experienced some erosion of their covered costs, as these limits make it more difficult to fund infrastructure costs. This, in turn, limits growth in aid payments to these communities, as compared to other faster growing communities.

Distribution of Aid among Municipality Types

6. Over time, varying amounts of emphasis have been placed on mileage and costs in distributing general transportation aid payments. Since towns tend to benefit more from mileage-based provisions while cities and villages benefit more from cost-based provisions, modifying the existing formula on either basis would have significant distributional consequences. As shown in the attachments, cities and villages, which mostly receive cost-based aid, have higher costs (Attachment 1) and larger populations (Attachment 2). As a result, cities and villages tend to receive a lower percentage of aid when compared to their costs and populations than do towns. By comparison, towns, which mostly receive the mileage aid rate, tend to receive a higher percentage of aid on a cost and population basis than cities and villages.

7. However, because towns have a much larger number of total centerline road miles, the per mile aid rate received by towns is typically much lower than for cities and villages. As indicated in the attachments, the relative success of each type of local government under the general transportation aid formula depends on the measure used to make the comparison. Governments that do poorly on the basis of payments received per mile (such as towns) have used this measure to argue for increased mileage-based payments. Conversely, governments that do poorly in terms of payments received as a percentage of costs (such as large incorporated areas) have argued that cost-based payments should be increased.

8. Again, because towns typically have a relatively large number of highway miles relative to their annual transportation-related costs, these local governments typically receive mileage aid. Of the 1,251 towns in the state, 1,210 received mileage (as opposed to share of cost) aid in 2019. However, under the general transportation aid program, no jurisdiction receiving mileage-based aid may receive an aid amount exceeding 85% of its three-year average (2015 through 2017, for 2019 payments) highway-related costs. In 2019, this 85% cost threshold provision reduced aid payments to a total of 96 jurisdictions, of which 92 were towns and four were villages. Again, this is largely a

function of towns having comparatively lower costs than other municipality types. For instance, in 2017 (2018 property tax collections), 48 towns had levies of less than \$25,000 (and 20 of these effectively had no levy). Because the Governor's budget would provide a 10.0% increase to the mileage aid rate in calendar year 2020, it is likely that additional towns would be limited by this cost threshold, which would result in a portion of the recommended aid increase being redistributed through the share of cost side of the formula primarily to cities and villages.

9. In response to this function of the formula, some who advocate for increasing the share of aid provided to town governments have argued that the portion of the funding lost to town mileage aid recipients because of the 85% cost threshold is money that should stay within the mileage aid component of the formula, rather than flow to municipalities on the share of cost side of the formula. For 2019, \$1,150,800 was redistributed from towns affected by the 85% cost threshold to municipalities on the share of cost side of the formulas.

10. To retain this "lost mileage aid" for towns, the Committee could modify the aid formula for calendar year 2020 and thereafter such that any mileage aid that would have otherwise been paid to a town government but was limited by the 85% cost threshold in that year, would have to be redistributed to other town governments on mileage aid. Each town's supplemental payment under this provision would also be capped at 85% of three-year average costs and would be paid through a separate appropriation. Under this provision, the 1,118 towns receiving mileage aid in 2019 that were not limited by the 85% cost threshold would have received \$1,150,800, through an estimated supplemental payment of \$20 per mile in that year. This rate per mile assumes that no town receiving this supplemental payment would have then reached the 85% cost threshold. [Alternative B1]

11. While the 85% of cost threshold reduces the amount of aid for jurisdictions (primarily towns) receiving mileage aid, those towns affected by the cost threshold are still receiving 85% of their three-year average costs, and in some instances, over 100% of their most recent year of costs submitted. Further, the 1,210 towns that received mileage aid received total payments equaling 45.0% of the total six-year average costs for those towns. Comparatively, in 2019, municipalities on the share of costs formula received payments equaling only 16.3% of their total six-year average costs in 2019. Had Alternative B1 been in place in 2019, municipalities on share of costs primarily cities and villages, would have received \$1,150,800 less in aid, which would have further reduced the percentage of costs covered by aid. For many of the same reasons, the 2013 Transportation Finance and Policy Commission recommended decreasing the mileage aid cost threshold from 85% to 75%. [Alternative B2]

Other Local Program Funding Options

12. The Governor's 2019-21 biennial recommendations would provide sufficient, estimated revenue to fund the general transportation aid increase in the bill, as well other proposed, above-base budget state and local transportation programming. However, current law, transportation fund revenues available for above-base transportation programming are limited. Over the past decade, there has been no significant transportation tax or fee increase, while the state has continued to authorize and issue significant amounts of transportation fund-supported bonds. In recent biennia, the fund has also supported significant increases for local transportation aid and assistance programs. One consequence of these bonding and local aid increase decisions is that less transportation revenue

remains available to fund state highway infrastructure over time. In the absence of significant transportation tax and fee increases or the continued use of general fund-supported bonding for state highway improvements, the extent to which the state will be able to fund state-level infrastructure and continue to increase funding to local roads is a significant policy concern.

13. In 2012, local government's general transportation aid was reduced by 6.0% for municipalities and 12.9% for counties. With subsequent increases in the 2013-15 and 2017-19 biennia, total general transportation aid is now \$26.8 million above the 2011, pre-reduction aid level. Once fully implemented, funding the proposed increase would require \$46.0 million each year (\$92.0 million per biennium) to be appropriated from the transportation fund, as compared to the 2018-19 base year. By comparison, the \$46 million in program funding that would be required each year to fund the recommended aid increase equates to annual debt service on approximately \$575 million in bonds (20-year maturities with a 5% interest rate).

14. Other provisions of the bill could be seen as responsive to local transportation funding needs. For example, county and municipal aid, which can be used for transportation purposes, would increase by 2% under the bill. Similarly, although removed by earlier Committee action, the Governor's recommendation would have allowed for a minimum levy limit increase of 2% each year, rather than an increase equal to the percentage change in a municipality's or county's annual net new construction. If such a levy limit increase would have been limited to only funding transportation improvements, the recommendation could have assisted local governments with their transportation infrastructure needs. Such a proposal would specifically direct levy limit assistance for road improvements to slower growing communities.

15. Another mechanism that would be responsive to local transportation funding concerns, would be to adopt an alternative that would provide communities with an additional local sales and use tax for transportation purposes, similar to what was proposed under Assembly Substitute Amendment 2 to 2015 AB 210. Under this substitute amendment, the bill would have limited the use of any revenue collected to highway maintenance purposes. This alternative would modify the allowable uses of this tax revenue to include expenditure for the improvement of existing highways and the construction of new highways.

16. Under this alternative, a county, following a successful referendum, would be allowed to impose an additional sales and use tax at the rate of 0.5% to be used only for highway maintenance, improvement of existing highways, and the construction of new highways. Counties could impose the tax for a period of four years. If the county wished to extend the tax beyond four years, it would have to be approved again through a county-wide referendum. Counties would only be able to retain a portion of the tax revenue and would be required to distribute the remainder using formulas based on road miles and population. First, counties would be allowed to keep 25% of collections from the additional sales tax revenue for county roads. Then the remainder of the annual revenue would be distributed through two formulas as follows: (a) the first formula would distribute 50% of total annual collections to counties, cities, villages, and towns, based on share jurisdictional of centerline mileage (weighted by the highway type); and (b) the second formula would distribute the remaining 25% of total, annual collections to cities, villages, and towns (excluding counties) based on share of county population. This alternative could be adopted in lieu of, or in addition to, the Governor's recommended

increases to the general transportation aid program. [Alternative A2]

17. In considering the Governor's recommendation for the general transportation aid program, the recommendation for the local roads improvement program (LRIP), a 2.9% increase (\$1.9 million) in the 2019-21 biennium, should also be considered. LRIP is a transportation fund-supported assistance program for capital improvement projects on local roads with a design life of at least 10 years. LRIP projects improve the condition of the local roads and bridges on which the funds are spent and can include pavement replacement or reconditioning. In contrast, the general transportation aid program funds a broader set of transportation-related costs that also includes maintenance (including snow and ice removal, brush trimming, mowing and weed control, and grading), traffic operations, and portions of local police costs.

18. While the LRIP program is a reimbursement program, whereby local governments are reimbursed up to 50% of their capital improvement projects costs, the general transportation aid program is more like the state's shared revenue program that assists in funding more general transportation-related costs. If the Committee believes some additional funding beyond the Governor's recommendation should be provided for local road capital improvements rather than to assist local governments with their more general transportation-related costs, the Committee could reduce the Governor's recommended general transportation aid increase under the bill and provide more funding to the LRIP program than is recommended by the Governor.

Other Potential Funding Levels

19. Table 2 shows the funding amounts that would be needed compared to base and the bill associated with different annual percentage increases in funding. Because the bill would provide a 10.0% increase to counties and municipalities, providing a smaller percentage increase, such as those shown in table, would require less funding than under the bill. [Alternatives A3a thru A3h]

TABLE 2

Potential Funding Changes -- Compared to Base and the Bill

<u>% Increase</u>	<u>Counties -- Change to Base</u>		<u>Counties -- Change to Bill</u>	
	<u>2019-20</u>	<u>2020-21</u>	<u>2019-20</u>	<u>2020-21</u>
2.0%	\$555,500	\$2,221,900	-\$2,221,900	-\$8,887,500
4.0	1,111,000	4,443,800	-1,666,400	-6,665,600
6.0	1,666,400	6,665,600	-1,111,000	-4,443,800
8.0	2,221,900	8,887,500	-555,500	-2,221,900
<u>% Increase</u>	<u>Municipalities -- Change to Base</u>		<u>Municipalities -- Change to Bill</u>	
	<u>2019-20</u>	<u>2020-21</u>	<u>2019-20</u>	<u>2020-21</u>
2.0%	\$3,486,400	\$6,972,800	-\$13,945,600	-\$27,891,100
4.0	6,972,800	\$13,945,600	-10,459,200	-20,918,300
6.0	10,459,200	\$20,918,400	-6,972,800	-13,945,500
8.0	13,945,600	\$27,891,100	-3,486,400	-6,972,800

20. General transportation aid is calculated and paid on a calendar-year basis, with quarterly payments on the first Monday of January, April, July, and October for municipalities. County aid payments are made in two installments, each equal to one-quarter of the calendar year total, on the first Monday of January and October and a third installment equal to one-half of the calendar year total on the first Monday of July of each year. Therefore, if an increase in calendar year 2021 would be provided, the remaining portion of the calendar year increase would have to be funded in next fiscal year (2021-22). This would increase the funding commitments on the transportation fund in the next biennium. This future commitment could be avoided if, as under the Governor's budget recommendations, any additional funding increase is provided in 2020, with no additional increase in 2021.

21. If the Governor's recommendation is not adopted and no funding increase is provided over the 2018-19 base level funding amount, the ongoing calendar aid level would remain at \$111.1 million for counties and \$348.6 million for municipalities (the rate per mile would remain at \$2,389 per mile). [Alternative A4]

22. Under current law revenues and base level appropriations, the 2019-21 biennium ending balance in the transportation fund is estimated as \$82.1 million. Any decision to provide additional funding for general transportation aid would have to take into account the available balance in the transportation fund, as well as other transportation funding demands.

ALTERNATIVES

A. Funding Level

1. Approve the Governor's recommendation to provide the following related to the general transportation aids program:

County Aid. Increase funding by \$2,777,400 SEG in 2019-20 and \$11,109,400 SEG in 2020-21 to fund a 10.0% increase to the calendar year general transportation aid distribution for counties for 2020 and thereafter. The current calendar year distribution for counties is currently equal to \$111,093,800. This would provide a calendar year distribution amount for counties equal to \$122,203,200 for 2020 and thereafter.

Municipal Aid. Increase funding by \$17,432,000 SEG in 2019-20 and \$34,863,900 SEG in 2020-21 to fund a 10.0% increase to the calendar year general transportation aid distribution for municipalities for 2020 and thereafter. The current calendar year distribution level for municipalities is currently equal to \$348,639,300. This would provide a calendar year distribution amount for municipalities equal to \$383,503,200 for 2020 and thereafter. Increase the mileage aid rate by 10.0% (\$239 per mile), from its current level of \$2,389 per mile to \$2,628 per mile, for calendar year 2020 and thereafter.

Delete the statutory references to prior calendar year funding amounts for counties and municipalities, as well as the prior year mileage aid rate amounts for municipalities.

ALT A1	Change to	
	Base	Bill
SEG	\$66,182,700	\$0

2. Adopt the provisions of Assembly Substitute Amendment 2 to 2015 AB 210, but modified to include the improvement of existing highways and the construction of new highways as allowable uses of this local option sale tax revenue. [There would be no state fiscal effect related to this provision.]

3. Provide a general transportation aid SEG funding change for 2020 and thereafter at one of the following percentages. Set the annual county and municipal distribution amounts, establish the mileage aid rate, and change the general transportation aid appropriations as shown below.

	2020 % Increase	2020 and Thereafter	SEG Change to Base		SEG Change to Bill	
		County Distribution 2020	2019-20	2020-21	2019-20	2020-21
a.	2.0%	\$113,315,700	\$555,500	\$2,221,900	-\$2,221,900	-\$8,887,500
b.	4.0	115,537,600	1,111,000	4,443,800	-1,666,400	-6,665,600
c.	6.0	117,759,400	1,666,400	6,665,600	-1,111,000	-4,443,800
d.	8.0	119,981,300	2,221,900	8,887,500	-555,500	-2,221,900

	2020 % Increase	2020 and	2020 and	SEG Change to Base		SEG Change to Bill	
		Thereafter Municipal Distribution	Thereafter Rate Per Mile	2019-20	2020-21	2019-20	2020-21
e.	2.0%	\$355,612,100	\$2,437	\$3,486,400	\$6,972,800	-\$13,945,600	-\$27,891,100
f.	4.0	362,584,900	2,485	6,972,800	13,945,600	-10,459,200	-20,918,300
g.	6.0	369,557,700	2,532	10,459,200	20,918,400	-6,972,800	-13,945,500
h.	8.0	376,530,400	2,580	13,945,600	27,891,100	-3,486,400	-6,972,800

4. Take no action. [The ongoing calendar aid level would remain at \$111.1 million SEG for counties and \$348.6 million SEG for municipalities (the rate per mile would remain at \$2,389 per mile).]

ALT A4	Change to	
	Base	Bill
SEG	\$0	- \$66,182,700

B. Cost-Based Aid Limitation

1. Create a sum-sufficient, all-moneys-received appropriation for the purpose of providing supplemental general transportation aid payments to towns that were not limited, in any given year, by the general transportation aid program's 85% cost threshold. Amend the current law general

transportation aid appropriation for municipalities to allow for the transfer of funds that would be redistributed to town governments under this provision. Specify that payments to towns under this provision shall be made no later than the first Monday in January.

Specify that for calendar year 2020 general transportation aid payments, and thereafter: (a) the general transportation aid formula would be modified such that the any mileage aid that would have otherwise been paid to a town but was limited by the 85% cost threshold in that year, would be redistributed only to town governments on mileage aid that are not limited by this threshold in that year; (b) require that the annual redistribution of this supplemental funding would be paid from the newly-created, sum-sufficient appropriation; (c) modify the existing, general transportation aid appropriation for making payments to municipalities to include the transfer of funds sufficient to make these supplemental payments to towns in each year; (d) specify that towns would be eligible to receive a payment from the newly-created, sum-sufficient appropriation for up to 85% of their three-year average costs; and (e) require that supplemental payment distribution made to towns be calculated by dividing the total amount transferred to the supplemental appropriation in a year by the total number of miles in those towns eligible to receive a supplemental payment in that year.

2. Take no action.[Funds associated with limiting municipalities to 85% of three-year average costs would continue to flow the share-of-costs component of the formula.]

Prepared by: John Wilson-Tepeli
Attachments

ATTACHMENT 1

Comparison of General Transportation Aid to Measures of Average Costs by Municipality and by Formula Component

	<u>Number of Jurisdictions</u>	<u>2019 Aid</u>	<u>Six-Year Average Costs</u>	<u>Three-Year Average Costs</u>	<u>% of Six-Year Average Costs</u>	<u>% of Three-Year Average Costs</u>
Share of Cost						
City	188	\$150,949,793	\$930,195,864	\$954,753,178	16.2%	15.8%
Village	336	47,161,880	293,879,235	313,422,339	16.0	15.0
Town	<u>41</u>	<u>8,001,898</u>	<u>51,444,796</u>	<u>57,966,376</u>	15.6	13.8
Subtotal	565	\$206,113,570	\$1,275,519,895	\$1,326,141,893	16.2%	15.5%
Rate Per Mile						
City	2	\$74,178	\$390,229	\$429,013	19.0%	17.3%
Village	75	1,568,854	5,857,440	5,892,156	26.8	26.6
Town	<u>1,210</u>	<u>140,882,697</u>	<u>312,821,447</u>	<u>323,736,293</u>	45.0	43.5
Subtotal	1,287	\$142,525,730	\$319,069,116	\$330,057,462	44.7%	43.2%
Statewide	1,852	\$348,639,300	\$1,594,589,011	\$1,656,199,355	21.9%	26.3%

ATTACHMENT 2

Comparison of General Transportation Aid to Population and Centerline Miles by Municipality and by Formula Component

	<u>Number of Jurisdictions</u>	<u>2019 Aid</u>	<u>Population</u>	<u>Aid per Resident</u>	<u>Jurisdictional Mileage</u>	<u>Aid per Mile</u>
Share of Cost						
City	188	\$150,949,793	3,200,983	\$47	13,906	\$10,855
Village	336	47,161,880	926,502	51	5,896	7,999
Town	<u>41</u>	<u>8,001,898</u>	<u>221,051</u>	<u>36</u>	<u>2,150</u>	<u>3,723</u>
Subtotal	565	\$206,113,570	4,348,536	\$47	21,952	\$9,389
Rate Per Mile						
City	2	\$74,178	1,818	\$41	\$31	\$2,389
Village	75	1,568,854	38,467	41	636	2,465
Town	<u>1,210</u>	<u>140,882,697</u>	<u>1,394,457</u>	<u>101</u>	<u>59,472</u>	<u>2,369</u>
Subtotal	1,287	\$142,525,730	1,434,742	\$99	60,139	\$2,370
Statewide	1,852	\$348,639,300	5,783,278	\$60	82,091	\$4,247