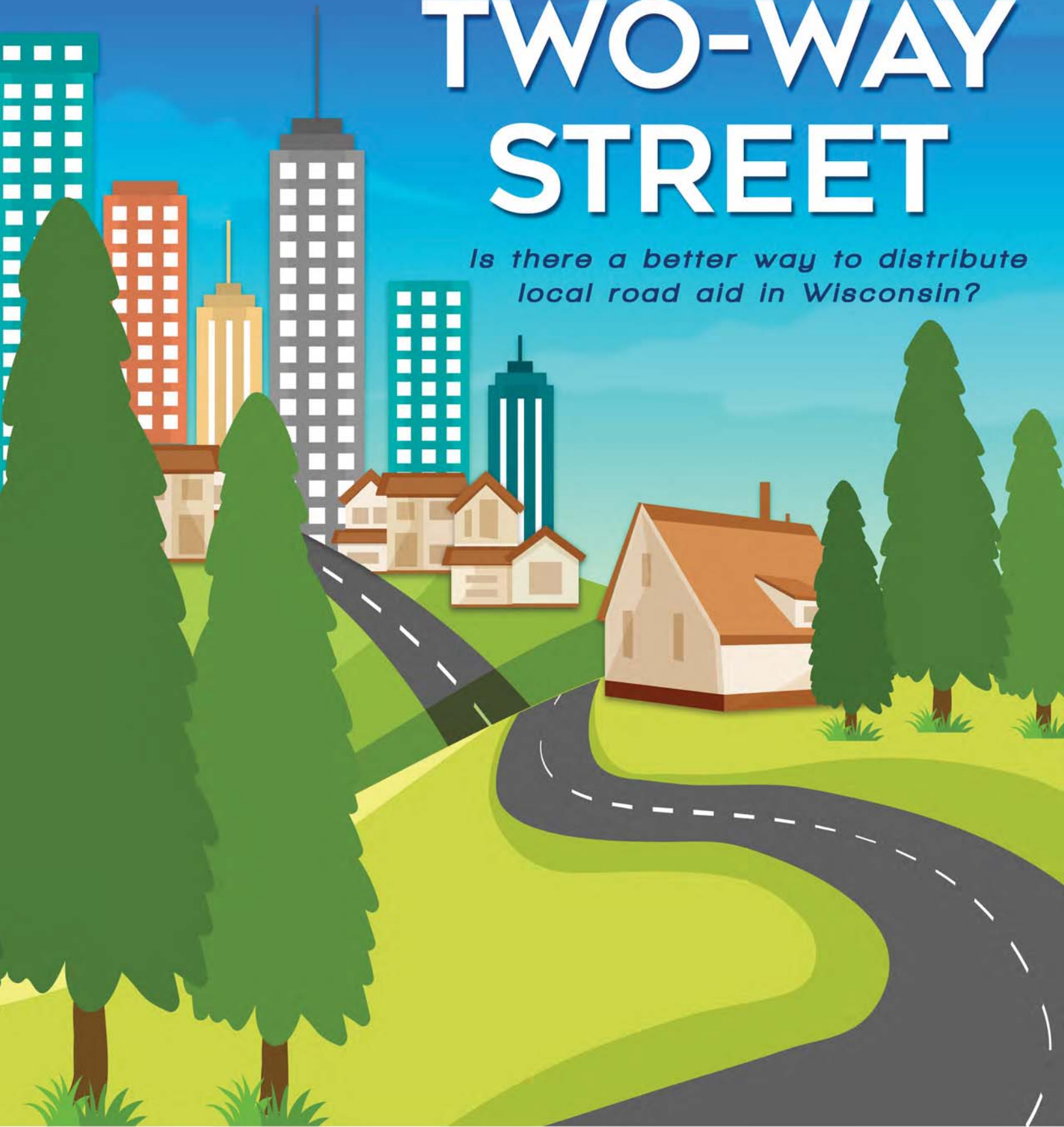


EXECUTIVE SUMMARY

# TWO-WAY STREET

*Is there a better way to distribute local road aid in Wisconsin?*



WISCONSIN

**POLICY FORUM**

Local governments in Wisconsin play a crucial role in the state’s transportation network by maintaining roads and streets for statewide commerce and travel and taking on tasks that include building, repairing, plowing, sweeping, lighting, and patrolling these roads. To help support this work, the state’s General Transportation Aids (GTA) program for decades has made payments to Wisconsin’s 1,922 cities, villages, towns, and counties.

With \$505.7 million in payments to local governments in 2021 alone plus an additional \$2.5 million in supplemental aid to towns, the GTA program is the second-largest within the state Department of Transportation (DOT). Since 1990, increases in the program’s funding have outpaced inflation and other forms of state aid such as shared revenue payments, though the aid likely still lags increases in road-related costs. GTA payments are now the second-largest form of state aid to municipal governments in Wisconsin and one of the top forms of aid to counties as well.

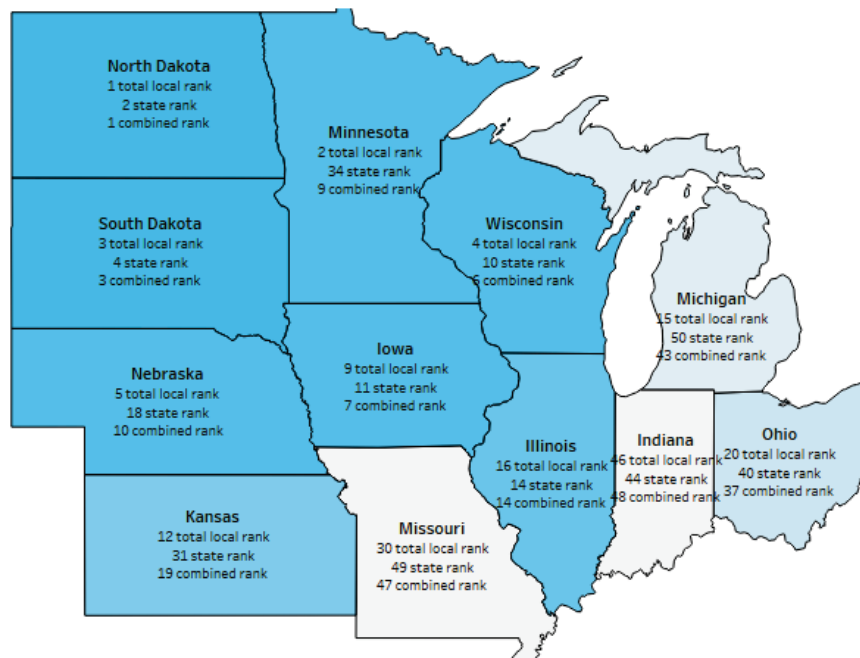
Yet, despite the generally steady increases in state funding, the methodology for distributing GTA payments has not had a major update in two decades. Over time, the program has provided more assistance to small communities with less traveled roads, raising questions about whether it is efficiently delivering aid to areas with the greatest need. More local governments are receiving the same payment from the state regardless of whether they are investing in their roads or not, weakening what could serve as an important state incentive for improving local infrastructure.

In this report, we review trends in GTA payments and their distribution, explore how other states distribute their local transportation aids, and consider potential policy changes to improve the effectiveness and fairness of the GTA program.

## Wisconsin Spends Heavily on Highways, State Aid

Wisconsin ranked sixth highest nationally with \$952 per capita in state and local highway spending in fiscal year 2017 (the most recent year for which U.S. Census Bureau data are available on all local governments nationally). That amount – which includes combined operating and capital spending –

**Upper Midwest States Spend Heavily on Highways**  
Per capita ranks on combined operating and capital spending, 2017 data; color corresponds to combined rank



Source: U.S. Census Bureau



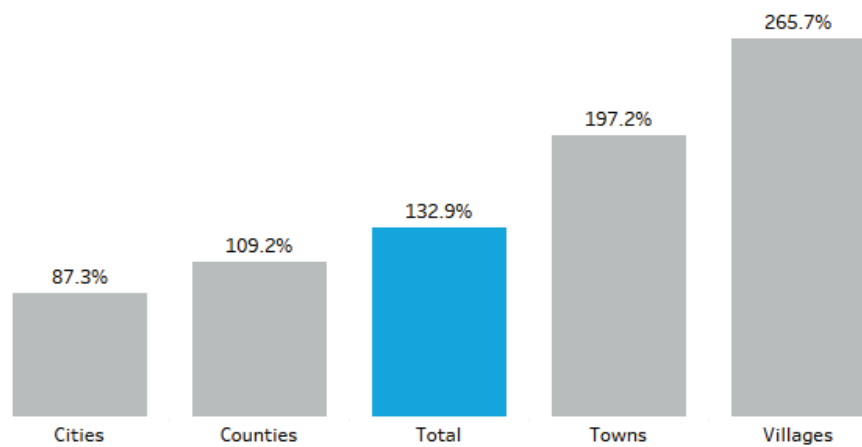
was 68% higher than the national average. Weather and the rural character of much of the state help explain this. Wisconsin's total was lower than some other northern states with harsh winters and many rural roads such as the Dakotas, Alaska, Wyoming, and Vermont. Neighboring Iowa and Minnesota, which have these same challenges that add to road costs, ranked seventh and ninth.

Still, the relatively high spending on roads in Wisconsin highlights the importance of having a fair and efficient system for financing, building, and maintaining roads. So does the fact that Wisconsin provided \$119 per capita in highway aid to all local governments in 2017 – seventh highest in the country. Last, an effective state aid program may be particularly important in Wisconsin given the restrictions placed by the state on local governments' own revenue sources.

Since 1988, state GTA payments have been distributed to local governments based on a pair of formulas. The first is based on the mileage of roads in a community and the second is based on a share of certain costs associated with its roads. Those costs include both obvious ones like maintenance and construction and less obvious related expenses such as police (which are accounting for a growing share of the payments made to local governments through the program).

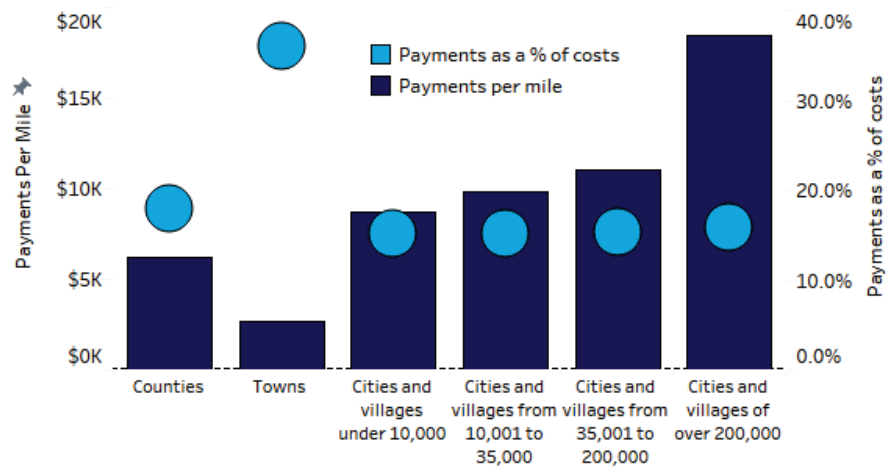
Municipalities must provide data for the two sets of calculations and the state uses the one yielding the largest payment for that community. Nearly all towns and a minority of villages are paid through the mileage formula at the 2021 rate of \$2,628 per mile. Larger villages and cities generally are paid through the share of costs formula since they spend more per mile on roads. Those communities tend to have more traffic, lanes, lighting, and storm sewers; more costly standards; and relatively high police costs. Counties must use the share of costs formula.

**Small Communities See Largest Increase in Payments**  
Growth in GTA payments by type of local government, calendar 1990-2020



Source: Wisconsin Department of Transportation

**Towns Receive Larger Share of Costs, Smaller Payments Per Mile**  
GTA payments per mile and as a % of eligible costs by type of local government



Source: Wisconsin Legislative Fiscal Bureau



State leaders have increased the mileage rate much more since 1990 than they have total GTA funding (224% versus 133%) though in recent years they have moved together. Prioritizing the mileage rate over the overall program meant over time GTA funding increased more rapidly for small communities (mostly towns and some villages) and more slowly for cities and counties.

Not surprisingly, over the past several decades more communities within the GTA program have switched to the mileage rate. In 2020, 1,282 municipalities received payments under the mileage rate, an increase of 9.2% from 1,174 in 1990, DOT data show. This removes an incentive for these communities to invest in roads since their payment does not increase with their costs or spending.

Under the current system, larger communities with more traffic and greater expenses do receive greater GTA payments per road mile. However, the state covers a much greater share of the costs for the relatively low-spending communities that are paid through the mileage formula. Towns, which are paid through the mileage formula almost exclusively, have an average of 36% of their costs covered by the GTA program. Local governments paid according to the share of costs formula on average receive less than half as much – 17.9% for counties and less than 16% for cities and villages.

In addition, the share of cost formula also rewards growing communities where new development allows them to increase property taxes to spend on road-related costs. In communities with little development, state limits on property tax levies may prevent local officials from raising new revenues to spend on roads and related expenses, which may in turn limit their state GTA payments.

In short, Wisconsin’s aid system rewards communities with high property values and new development for spending money on roads or even related services such as police – whether or not the spending is needed – while providing no incentive to very small communities to repair and rebuild roads. The result is a system that is likely less efficient and effective in promoting a safe, high-quality road network.

## Modeling Local Road Needs

One potential response for policymakers would be to consider allocating more state road funding based on the actual construction or maintenance needs of local communities. We

Sample Municipalities by Tier

Classification	Population Range	Population Density	Sample Size
Milwaukee	n.a.	All	1
Tier 1 City	>=50,000 (ex-Milw.)	All	8
Tier 2a Urban City/Village	25,000-49,999	>1,500/sq. mi	12*
Tier 2b Suburban City/Village	25,000-49,000	<1,500/sq. mi	9
Tier 3 City/Village	5,000-24,999	All	17
Tier 4 City/Village	1-4,999	All	25
Tier 5 Town	> =4,000	All	10
Tier 6 Town	1-3,999	All	29

\*Although Superior has a density below 1,500/sq. mile, it was included in the urban group

developed a formula to illustrate how that could work, identifying a sample of 111 municipalities and modeling their road costs by drawing on the same local spending data currently used to distribute GTA payments as well as extensive information contained in the Wisconsin Information System on Local Roads (WISLR). The table shows the various classes of municipalities.

In general, the formula seeks to factor in average actual maintenance, police, lighting, and other spending by different size classes of municipalities to arrive at an estimate of what each tier of municipalities should be spending in these areas. For construction costs, the model looks at the

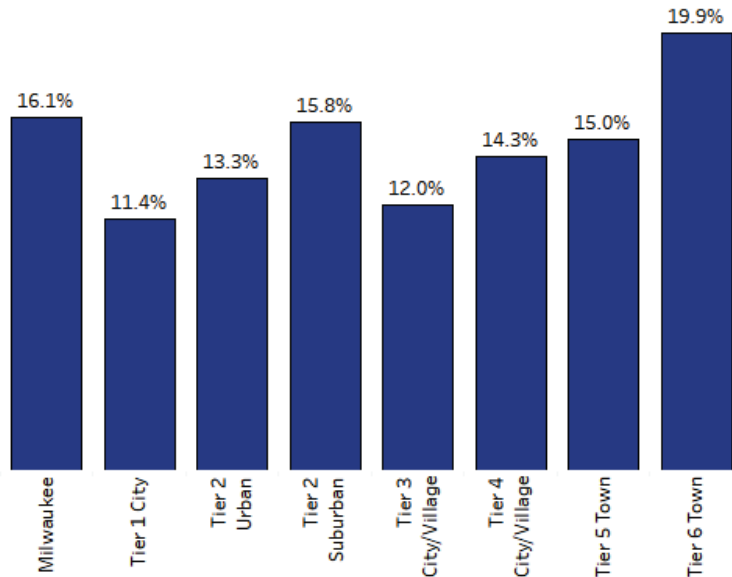


length and width of street segments, their expected life, and their classification as either arterial, collector, or local roads. The model then computes how much it would cost to build and then reconstruct or rehabilitate these roads over their expected life and adds these costs to the other expenses above to arrive at a total need for each community.

The model provides several important insights. As a share of modeled community need, current GTA payments are highest for the smallest towns, which receive flat mileage payments despite lower road spending, and for the city of Milwaukee with its high police costs.

### Small Towns Receive More State Aid Relative to Need

GTA received as percent of total modeled need

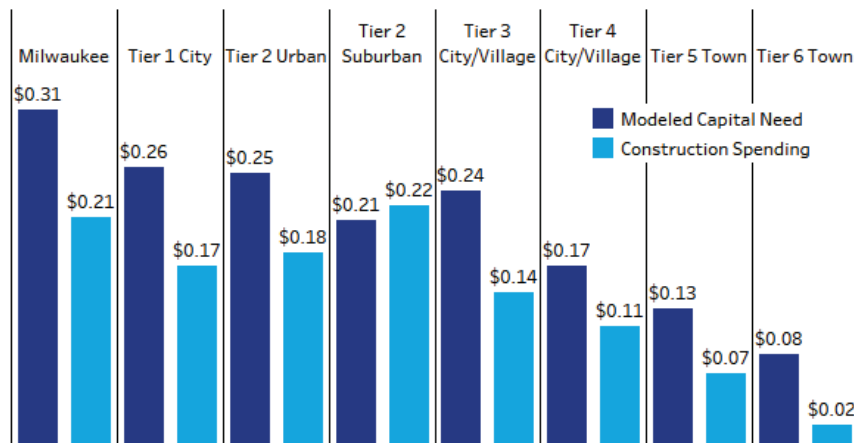


Sources: Wisconsin Department of Transportation and Revenue; based on a sample of 111 cities, villages, and towns.

Yet as the following chart shows, actual spending by some types of communities in key areas such as road construction can fall short of their estimated need. Despite the relatively high rate of payment by the state, the smallest towns spend a much smaller amount on road construction, only about one-fifth of their need as calculated by the model.

### Cities and Villages Have Higher Relative Capital Spending

Modeled capital need versus construction spending in \$ per square foot of pavement



Source: Wisc Department of Transportation and Revenue; based on a sample of 111 cities, villages, and towns.

A major potential benefit of using a need-based model

like our example is that it would incorporate an objective standard for assessing a community's actual construction needs and would not be driven purely by the number of road miles in a community or what communities have previously spent on road-related costs. However, this approach is just one of many that could be used. To provide additional perspective, the study also reviewed the formulas used by neighboring states.

## Looking to Other States

Like Wisconsin, our four border states all provide substantial road aids to their local governments. In addition, all of the states finance this assistance at least in part through motor fuel taxes and all but Illinois also draw on state vehicle registration fees for the aid programs discussed here. Some states, such as Minnesota and Michigan, also use certain income or sales tax collections.



As already noted, local governments in Wisconsin generally have fewer sources of local revenue to fund spending on roads and other priorities. The main options are property taxes and vehicle registration fees, though counties also have sales taxes. For example, municipal governments in Minnesota, Michigan, Iowa, and in particular Illinois all make greater use of sales taxes than their counterparts in Wisconsin. In Michigan, 20 cities including Detroit levy an income tax on residents and certain non-residents and in Illinois some local governments including Cook County and the city of Chicago tax either the sale of motor fuel or the purchaser.

Each of the five states distributes at least part of the aid to local governments based on road mileage in those communities. Here there are some differences, however. For example, in Iowa, the formula looks at not just the overall road miles but the mileage of various types such as paved, gravel, and dirt roads. Michigan also looks at counties' urban road mileage. For its part, Wisconsin stands out for its use of mileage as the sole formula factor for determining a significant share – at least one-third – of its payments to a large number of local governments.

All of Wisconsin's neighbors also use the population of communities to help distribute road aids. There are some differences in that Iowa and Michigan account for the rural population of counties and not simply their total population. Illinois also has a separate formula clause for Cook County, its most populous. Three states also use data from vehicle registrations to calculate road payments.

### Wisconsin Uses Few Formula Factors To Distribute Aid

Factors used by states to distribute road aids to local governments

State	Local Road Mileage	Population	Registered Vehicles or Fees	Evenly Divided	Land Area	Length of Local Bridges	Need	Past Spending	Type of Road Surface	Vehicle Miles Traveled
Illinois	■	■	■							
Iowa	■	■			■	■			■	■
Michigan	■	■	■	■						
Minnesota	■	■	■	■			■			
Wisconsin	■							■		

Source: State agencies and Wisconsin Policy Forum research; Does not include the snow formula factor used in Michigan for a small amount of payments.

Wisconsin uses only two factors – a community's road mileage and its eligible road and other costs – to determine payments. In a sense, that description may be oversimplified as Wisconsin's eligible cost formula is actually much more complex than most factors used by border states. Yet, as the table shows, each of the other four states draws on a larger number of factors than Wisconsin to determine the core elements of its local aid payments.

Without a much more detailed analysis, it is difficult to assess how the formulas from each state compare in terms of distributing aid and which types of communities they favor. Compared to its border states, however, Wisconsin's approach likely favors towns and the smallest villages and is less favorable for larger cities. The fact that Wisconsin leads the nation in per capita road aid payments to towns seems to support that interpretation. Wisconsin's cost formula also favors communities that spend more heavily on roads regardless of their actual need.



Minnesota represents a different approach in which at least half of state aid is delivered according to a community's construction and maintenance cost needs. In addition, population and vehicle registrations play substantial roles. Together, this approach would tend to favor the communities with the greatest needs in terms of constructing and maintaining their present road system and those with the largest populations.

## How to Move Forward

Based on our analysis, we present several options for modifying the GTA program for state officials to consider. Policymakers could choose to:

- Restore a greater voice to local leaders in determining the transportation policies that affect them. One model would be the former Local Roads and Streets Council, an advisory council of more than two dozen members from towns, villages, cities, counties, and regional planning commissions that helped craft the changes made to the GTA cost formula in the 1990s.
- Continue the recent practice of tying the percentage change in the mileage rate within the GTA program to the overall increase or decrease in the program's funding for municipalities. This allows communities to share equally – regardless of which formula applies to them – in any rise or fall in funding.
- Tweak the existing GTA formula by reducing the emphasis on police costs and allowing for greater emphasis on expenses from road maintenance and construction. Policymakers could also address a “cliff effect” within the formula that leads to the unequal treatment of police and lighting costs for some communities of only slightly different population sizes. Unlike many aspects of GTA policy, the formula factor related to law enforcement can be changed by state DOT and Department of Revenue officials without any action by lawmakers.
- Rewrite the GTA formula to take greater account of factors such as 1) road width, pavement type, and classification as arterial, collector, or local; 2) population or vehicle registrations in a community; 3) need as determined by an objective formula such as the one put forward by this report; or 4) the fact that some slow-growing communities may be losing GTA payments because they are not able to increase their property tax levy and eligible cost spending.
- Continue the recent practice of shifting more future funding increases for local road aids into the state's Local Road Improvement Program or other state efforts that are more focused on supporting actual road and infrastructure construction projects.

Overhauling the GTA program poses many challenges given its size and long history. Changes to its formula would inevitably create winners and losers, which in turn could give rise to fierce political opposition. Legislators might ease the path by providing additional funding for the program to ensure that all communities were held harmless and did not lose GTA funding. However, the additional cost would create a hurdle of a different type – finding sufficient funding within the larger state budget.

Still, there are also drawbacks to appropriating ever larger amounts of tax dollars for the current program without considering whether those funds are achieving the state's transportation goals. In exploring the complexities of the GTA program and the opportunities to improve it, we hope to stimulate renewed discussion about how those dollars can best be distributed to ensure Wisconsin residents and businesses enjoy the safe and high-quality roads that are needed to enhance the state's economy and preserve the quality of life of its residents.

