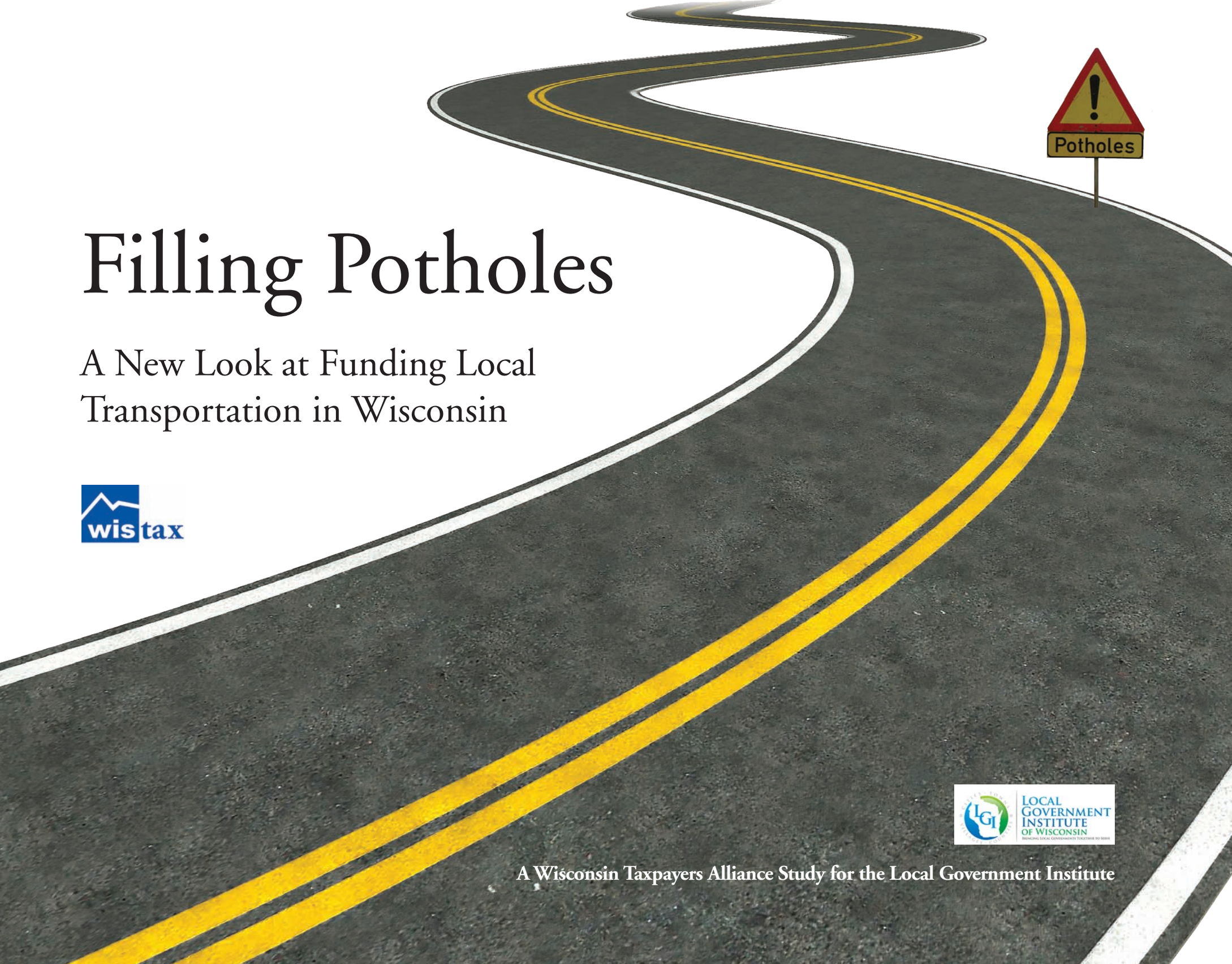


Filling Potholes

A New Look at Funding Local Transportation in Wisconsin

wistax

LGI Local Government Institute of Wisconsin

A Wisconsin Taxpayers Alliance Study for the Local Government Institute

Wisconsin Taxpayers Alliance
www.wistax.org

Board of Directors
Local Government Institute of Wisconsin

Ladies and Gentlemen:

In late 2013, Local Government Institute (LGI) leaders and the Wisconsin Taxpayers Alliance (WISTAX) began informal discussions about state and local transportation finance, both the ongoing challenges and possible solutions. These discussions culminated in February 2014 with a formal WISTAX study proposal subsequently approved by the LGI Board of Directors.

While several state task forces or commissions have examined transportation funding over the past two decades, this report takes a somewhat different tack, shifting attention specifically to the transportation needs of municipal and county governments.

The findings are unmistakable. Regardless of the nature of a revenue-expenditure gap at the state level, investment in local transportation infrastructure has been more adversely affected in the past decade than it has at the state level.

Two possible approaches to local transportation funding are explored here. One assumes that state segregated fees and taxes will be adjusted in a way that boosts overall state revenue and, therefore, state aid for local road work.

The other represents a noticeable shift in perspective, arguing that state government transportation revenues and local aids will both lag in the years to come. In that case, a new approach to funding local streets and highways is needed. This report outlines a package of possible local revenue options that could either be adopted locally or shared cooperatively on a regional basis.

The research staff at the Wisconsin Taxpayers Alliance thanks LGI leaders and its association members for raising this largely ignored issue. Thank you, to, for offering us the opportunity to examine the special transportation needs of counties and municipalities, and to explore new funding approaches that recognize the strengths of local decision-making and control.

Sincerely,

Todd A. Berry

President

The Local Government Institute of Wisconsin (LGI) was formed by the Wisconsin Counties Association, the League of Wisconsin Municipalities, the Wisconsin Towns Association and the Wisconsin Alliance of Cities (now the Urban Alliance) to promote greater cooperation and collaboration between units of government in the delivery of services.

Ensuring a safe, efficient and effective local transportation network is one of the core responsibilities of local government. This is a critical service that impacts public safety, employment, the flow of goods and raw materials, and the functioning of nearly every household and business in Wisconsin. Local governments are caught between declining state and federal transportation funding and the inability to increase local tax levies to adequately fund local transportation needs.

LGI commissioned the Wisconsin Taxpayers Alliance to study the issues impacting the funding of local transportation budgets and develop recommendations for fixing the problem. This report is the result of their work. It may be downloaded for free from our website at www.localgovinstitute.org/publications.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

LOCAL GOVERNMENT INSTITUTE OF WISCONSIN

wistax

EXECUTIVE SUMMARY

Wisconsin has a long-accumulating transportation finance problem that, if not soon addressed, could impact economic growth and the state of public finance now and for years to come. Lack of growth in state transportation fund revenues is well documented. Over the past five years, the annual growth of gas taxes and vehicle registration fees was minimal, averaging just 0.3%. Changing driving patterns and rising fuel efficiency makes future prospects even more dim. If nothing is done, state transportation funding could be short between $2 billion and $6 billion over the next 10 years.

A Transportation-Dependent Economy. Wisconsin's economy relies heavily on transportation: Manufacturing, farming, and trucking claim a larger share of employment and wages here than in any other state, save Indiana. In addition, good roads boost Wisconsin's $11 billion tourist industry. This is particularly important in the north, where tourism spending accounts for more than 5% of income in 12 counties.

A Local Problem. Transportation funding is a local challenge even more than a state one. Wisconsin has 11,800 miles of state and Interstate highways, but 103,000 miles of county highways and municipal roads and streets to maintain.

State budget troubles have adversely affected local transportation finances. As transportation taxes and fees stagnated or were raided to cure general fund deficits, transportation aids to local governments suffered. In 1999-2001, 40% of state transportation fund spending was local assistance, compared to only 32% now.

Local finance problems were exacerbated by other state aid cuts and state-imposed property tax limits. The result of this squeeze was an inflation-adjusted decline in municipal transportation spending from $275 per capita in 2000 to $227 in 2012. In only two states did local transportation spending increase less than in Wisconsin during 2000-11.

Costs of Poor Roads. In 2012, pavement on less than half of state highways was rated "good." In fact, thirty-five states had highways in better condition. The situation was worse in the state's 15 urbanized areas where only 15% of the highway system was rated "good" and just over half was "acceptable."

Poor roads impact family finances. For example, a 2013 study found nearly half of the roads in the Milwaukee area were in poor condition, costing area drivers an average of about $700 per year in additional car repairs.

But the economic impact is much broader. "States that have invested more in infrastructure tend to have greater output, more private investment, and more employment growth," according to the Federal Reserve Bank of Boston.

Solutions. Fixing the state transportation fund can be straightforward. Options include raising and/or indexing the gas tax, imposing the current 5% sales tax on gasoline purchases, increasing vehicle registration fees and/or basing them on vehicle value, and some type of vehicle miles travelled charge.

The local funding problem is more difficult. A healthy state transportation fund could mean more local transportation aids. However, declining shared revenues, local levy limits, and rising costs (asphalt prices rose an average of 11% per year during 2005-13) will continue to dampen local transportation expenditures.

The solution might be a regional approach with dedicated transportation revenues. A transportation network does not respect civil boundaries - there are economies of scale of investment as well as economic and social impacts regardless of jurisdiction. A regional approach to transportation funding can maximize positive impacts and minimize negative externalities, save tax dollars, and possibly reduce property tax disparities. Dedicated transportation revenues can make the solution sustainable.

Local governments already have access to a wheel tax, which could be expanded to a value-based fee. The state could authorize other transportation-related taxes available to local governments if they create transportation cooperatives in exchange for concomitant property tax reduction. Possible revenues include a personal property tax imposed on vehicles, a local gas tax, or a local sales tax.

Cooperatives would be created only with voter approval and would be governed by a board of elected officials from member communities. □

INTRODUCTION

A state economy relies on many factors to grow and remain vibrant. Among them are a skilled workforce, access to capital, modern technological infrastructure, reasonable business taxes, and a good transportation system. This last factor is often taken for granted.

Yet quality roads and bridges, and an efficient public transportation system are critical for business attraction, retention, and expansion. Workers rely on roads or public transportation to get to and from work. Businesses rely on transportation infrastructure to move their products to market. An inefficient or deteriorating transportation system is costly to individuals and businesses, and can make a state less attractive to both.

According to the most recent (2012) figures available, the condition of Wisconsin's highway system is below average. The pavement on less than half of it is rated "good" based on smoothness. Thirty-five states had highways in better condition, including three neighboring states. The situation is significantly worse in the state's 15 urbanized areas. There, only 15% of the highway system is rated good; just over half is considered "acceptable."

Wisconsin also has some bridge problems. In 2013, 14% were rated as either "structurally deficient" or "functionally obsolete." Although the condition of bridges in Wisconsin are generally better than elsewhere, this remains a safety issue.

Wisconsin's dilemma, as with many states, is how to pay for its transportation needs. At the state level, Wisconsin's funding system is narrow: The majority of state transportation fund revenues are gas taxes or vehicle registration fees. With vehicles becoming more fuel efficient and increasingly using alternative fuels, gas tax collections are at best stagnant, and certainly fail to keep pace with inflation.

While local governments rely on a variety of revenues to fund transportation, many have been limited in recent years. With state transportation taxes losing purchasing power, state assistance to local governments has waned. Local governments also use property taxes and general state aids to help pay for local roads and bridges. State shared revenues have been cut several times over the past decade, and property tax growth has been capped. This revenue squeeze has shifted local spending from transportation to other areas, particularly police and fire.

Unfortunately, discussion of transportation funding has primarily focused on the state transportation fund. Much less discussed is how local governments are going to fund transportation needs in the next decade. Yet, Wisconsin has 103,000 miles of county highways and municipal streets and roads compared to only 11,800 miles of state and Interstate highways. It also has 81 public bus and shared-ride taxi systems provided by cities and villages.

If Wisconsin is to compete successfully with other states for jobs and workers over the next 30 years, it will need high-quality infrastructure. That means the system of state and Interstate highways needs to be modern and efficient for producers looking to deliver their goods to consumers. It also means local transportation infrastructure must be able to move workers efficiently from where they live to where jobs are.

Data used in this report are from a variety of sources, some more current than others. Depending on the source, most recent figures range from 2011 to 2014. □

SECTION 1:
THE ECONOMICS OF TRANSPORTATION

Many Wisconsinites probably spend little time thinking about transportation infrastructure. That changes, though, when local streets are littered with potholes, traffic congestion lengthens commute times to and from work, or buses are late or overcrowded. It is then that we focus on public transportation spending—either how much we spend, what we spend it on, or both.

Poor transportation infrastructure affects not only individuals, but also businesses. Companies need good roads or rail to get their products to markets both in Wisconsin and nationally. Moreover, many urban and suburban employers have workers who rely on public transportation to commute to and from their job. Finally, some companies rely on a quality transportation system to make it easier for their customers to get to them.

Summary of Previous Studies

Macroeconomic Effects: Short Term. A vast body of research highlights the positive economic impacts of public infrastructure. In the short term, construction of highways, bridges, or other transportation infrastructure generates jobs for construction workers and related occupations. As those workers spend their wages at retail establishments, restaurants, and other businesses, the economic impact to the state multiplies, creating jobs and income in those sectors. These multiplier effects vary but are typically estimated to be above two. That means every job created to build or maintain transportation infrastructure supports at least one other job in the state economy. In other words, creating the initial job ultimately results in a total of two (or more) new jobs in the state.

Macroeconomic Effects: Long-Term. More important, though, are the long-term impacts of infrastructure. A well-maintained and efficient transportation system helps lower costs for businesses that rely on transportation, making them more competitive in national and international markets. A 1990 Federal Reserve Bank of Boston study found that "states that have invested more in infrastructure tend to have greater output, more private investment, and more employment growth."

Federal Reserve research found that "states that have invested more in infrastructure tend to have greater output, more private investment, and more employment growth."

An efficient transportation system, particularly roads, can serve as a magnet for businesses that are "highway-reliant." Manufacturing is a good example. Manufacturers need roads, highways, rail, and ports to get their products to market, both nationally and internationally.

A strong relationship exists between manufacturing firm location and major highways. A 2002 Wisconsin study found that 88% of all new or expanded manufacturing facilities located within five miles of a major highway. Further from home, a 2003 study of the 1980-94 Spanish highway expansion showed manufacturers locating on or near the new highways.

Other research confirms the economic development impact of transportation infrastructure but cautions that there can be negative impacts in communities farther away from the new or revamped roads and highways. One study of U.S. interstate highways found that the system raised the level of economic activity in counties that

it passed directly through, but drew activity away from neighboring counties.

Individual Impacts

In addition to these macroeconomic effects, inefficient transportation infrastructure also affects family budgets. We typically think of potholes and congestion in terms of inconvenience—slowing down to avoid potholes or to minimize their damaging effects on our vehicles. Congestion means spending more time in our vehicles rather than working, enjoying family and friends, or participating in other leisure activities.

Direct Financial Costs. However, potholes and congestion also have direct financial costs. A 2013 study found nearly half of the major roads in the Milwaukee urban area were in poor condition, costing area drivers an average of about $700 per year. Among large cities, Milwaukee's roads were in the 8th worst condition.

The same study found 37% of Madison's major roads were in poor condition, costing drivers an average of $615 per year in additional tire wear, maintenance, and accelerated vehicle deterioration. Nationally, substandard urban road conditions cost drivers an average of $377 per year.

Congestion costs have two components. The first, and most obvious, is higher fuel costs. The second is the time cost of a longer commute.

A recent study from Texas A&M found congestion costs the average Texas family $1,500 per year. A study in Portland estimated that inadequate transportation investment would result in average annual congestion costs of $782 per household. Closer to home, a 2002 study found congestion costs in Milwaukee and Waukesha counties totalled $390 million in 2000; nationally, the costs of congestion in the largest urban areas totalled $68 billion.

A 2002 study found congestion costs in Milwaukee and Waukesha counties totaled $390 million in 2000; nationally, the costs of congestion in the largest urban areas totaled $68 billion.

The Wisconsin Department of Transportation (DOT) monitors congestion, measuring it in two ways. First, they report the number of hours spent below posted speed on the Interstate system. During the 12 months ending February 2014, DOT reported 7.2 million hours below posted speeds costing Interstate users $105.6 million. Second, they report the percent of urban freeway miles with "serious congestion." Their objective is 10%; in 2012, 15% of urban highways had serious congestion.

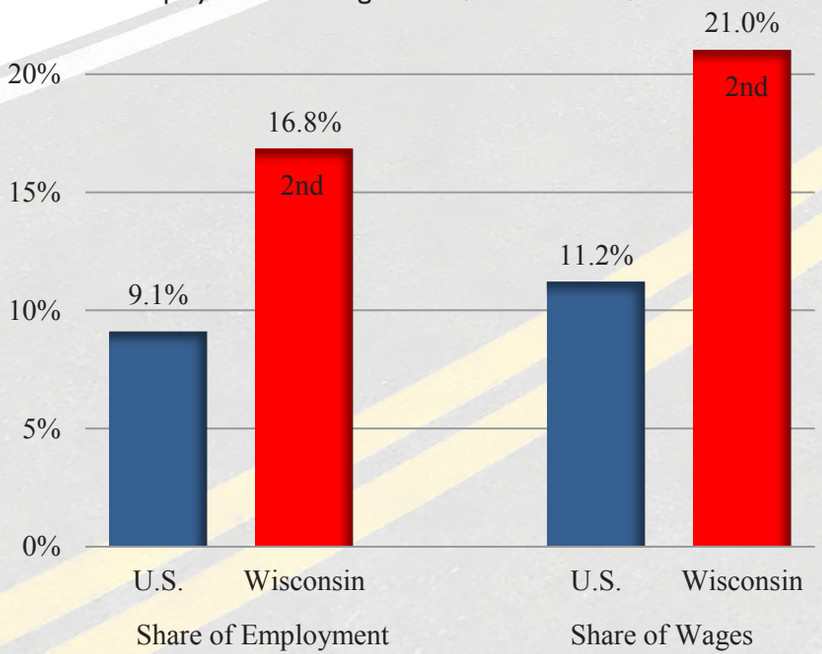
Access to Jobs. An efficient, well-integrated transportation system gives workers access to a broader range of jobs, including higher-paying ones. A well-designed road system allows commuters access to jobs in a wide range of communities. Transit systems, either within a community or between communities, allow low-income households or individuals who choose not to drive access to jobs that may pay more than ones within walking distance. DOT would like to have 75% of the population served by transit. They estimate that, in 2011, 55% were.

SECTION II: A TRANSPORTATION-DEPENDENT ECONOMY

Companies in nearly all industries rely to some degree on transportation infrastructure. For example, their employees need some form of transportation to get to work.

However, four industries stand out as most reliant on it: manufacturing, farming, transportation (trucking, in particular), and tourism. Tourism relies on the transportation system to get visitors to their destinations. Manufacturers and farmers need an efficient transportation system to get their products to market, either in Wisconsin or elsewhere. Their costs rise when the transportation system is outdated or inefficient.

Figure 1: Manufacturing Critical For Wisconsin's Economy
Employment and Wage Shares, Wis. and U.S., 2012



The transportation industry, in particular trucking, is used by farmers and manufacturers to move products from farm or factory to other manufacturers, wholesalers, retailers, or directly to consumers. Worn infrastructure shortens the life of a truck and raises industry costs. These costs are shifted to producers in the form of higher rates, making farmers and manufacturers in regions with poor transportation infrastructure less price competitive than their competitors elsewhere.

Wisconsin relies to a greater degree on "transportation-dependent" industries such as manufacturing, farming, trucking, and tourism than do other states.

This is important for Wisconsin because, as shown below, it relies to a greater degree on these transportation-dependent industries than do other states. That only heightens the importance of transportation infrastructure and finance here.

Manufacturing Matters Here

Manufacturing has long been a dominant industry in Wisconsin. In terms of jobs and earnings, the sector is even more important to the state than it might appear at first glance.

Important for Jobs. Wisconsin's relies on manufacturing more for the health of its economy than do most other states. The sector is particularly important in terms of employment. In 2012, Wisconsin's manufacturing sector employed more than 450,000 residents; the sector was responsible for 16.8% of all Wisconsin jobs (see Figure 1). Only Indiana (17.1%) had a higher concentration

Table 1: Counties Most Reliant on Manufacturing
Manufacturing Share of Total Employment, 2012

Trempealeau	43.1%	Rusk	28.9%
Price	37.3	Jefferson	27.8
Sheboygan	33.4	Winnebago	27.7
Marquette	33.3	Richland	26.8
Marinette	32.2	Clark	26.3
Calumet	30.0	Kewaunee	26.2
Manitowoc	30.0	Washington	26.0
Waupaca	29.6	Barron	25.4
Dodge	28.9	Racine	25.2

of manufacturing jobs. Nationally, just 9.1% of all employment was in manufacturing.

Manufacturing jobs are particularly important in 18 Wisconsin counties (see Table 1 on page 5) where the sector accounts for more than one-quarter of all employment. Some of these manufacturing-intense counties are populous (Racine, Sheboygan, Washington, and Winnebago), while others are relatively sparse (Marquette, Price, Richland, and Rusk). Moreover, the 18 represent nearly all corners of the state, reflecting the need for quality transportation infrastructure statewide.

Important for Pay. On average, manufacturing jobs pay more than jobs in many other parts of the economy. In 2012, manufacturing wages averaged $52,400 in Wisconsin, or 25% more than the average across all industries ($42,000). The higher pay magnifies the importance of manufacturing to the state economy.

While manufacturing firms claimed 16.8% of all jobs here, they paid 21.0% of all wages in the state. That percentage was second highest nationally and nearly double the national norm (11.2%, see Figure 1 on page 4).

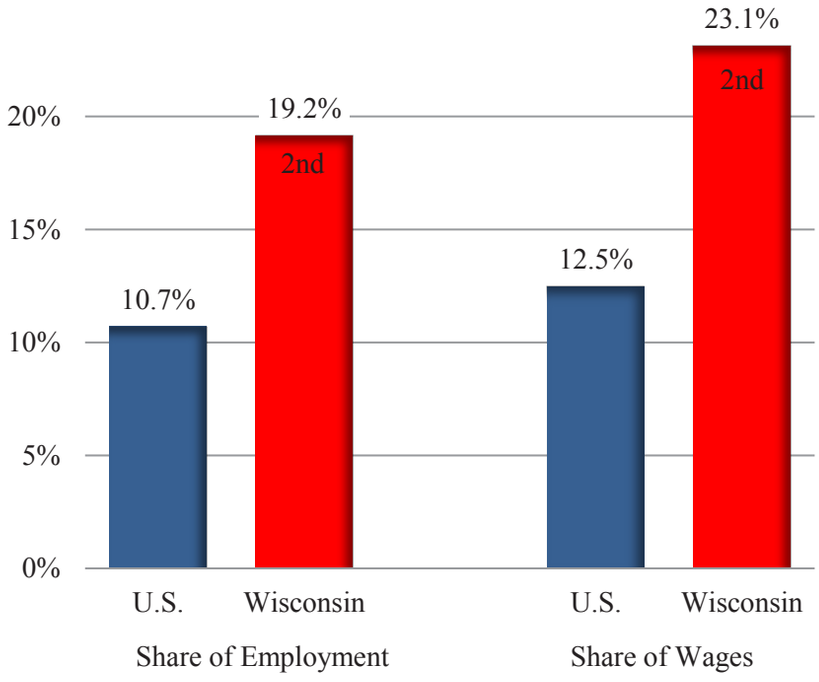
Not only do manufacturers pay well, they are also more likely to provide better benefits than employers in many other industries. Thus, total compensation (salary plus benefits) is much higher. In 2012, average compensation in Wisconsin's manufacturing sector was nearly $67,000, or more than 60% higher than in other sectors ($41,500).

Farming

Like manufacturers, farmers need a well-maintained and efficient transportation system to move their products to market. A 2004 national study found trucks were the most widely used method of transportation in the agricultural industry, accounting for about

Figure 2: Wisconsin Among Leaders in Farm Density
Farms Per 100 Sq. Miles, Top Ten States and U.S., 2010

Figure 3: Trans.-Dependent Industries Critical for Wisconsin
Employment and Wage Shares, Manuf., Trucking, and Ag. Combined, Wis. and U.S., 2012



two-thirds of industry freight. Meat and dairy are most reliant on trucks. Among all industries, the food sector uses the most infrastructure per dollar of domestic consumption.

Wisconsin has long been thought of as an agricultural state; after all, its nickname is America's Dairyland. In 2012, Wisconsin's 76,800 farms generated sales totaling more than $12 billion, placing the state among the top 10 in agricultural output. And, at 144 per 100 square miles, the state has the 7th highest farm density in the country (see Figure 2 on page 5). Farm density here is more than double the U.S. average.

Moreover, in 2012, Wisconsin's dairy farms employed 12.4% of all dairy farm workers nationally. Only populous California employed a higher percentage, highlighting the importance of dairy to Wisconsin's economy.

Truck Transportation

A third industry that relies heavily on transportation is trucking. The Badger State's abundant manufacturers and farmers rely on the industry to move their products. And partly due to our above-average reliance on manufacturing and farming, the trucking industry here claims a larger share of jobs than nationally.

In 2012, nearly 42,000 residents were employed in Wisconsin's trucking industry. At 1.6% of total employment, trucking claimed a significantly larger share of jobs in Wisconsin than nationally (1.0%). In only nine states does the trucking industry account for a greater share of employment.

Transportation-Dependent Industries Combined

Combining either jobs or wages from these three transportation-dependent industries makes it even more clear that the state economy relies more on transportation than do other state economies.

In 2012, more than 516,000 residents were employed in one of these industries. As a share of total employment, the three were responsible for nearly one-in-five jobs (see Figure 3). Nationally, that figure was only one-in-ten.

Moreover, 23.1% of all Wisconsin wages were paid by these three industries, compared to only 12.5% nationally. In both employment and wage shares, Wisconsin ranked second nationally behind Indiana.

Economic Impacts Multiplied

The significance of manufacturing, farming, and trucking—three transportation-dependent industries—to Wisconsin's economy is clear. However, job gains or losses in these sectors impact the rest of the economy, multiplying their impact. Employment gained or lost in these industries, whether due to transportation infrastructure or other factors, results in additional economy-wide gains or losses.

When a new business is created in Wisconsin, the number of jobs it will bring is often the headline. What this misses is the cumulative effect a new firm will have on the state. New workers spend their wages on goods and services, supporting jobs in housing, retail, restaurants, and other industries.

Estimates of these multipliers vary by industry. For the trucking industry, the estimated multiplier is about 2.5. In other words, if a trucking company expands and adds 100 jobs, the additional spending of these new workers will create another 150 jobs in other sectors. Thus, the total impact on the economy will be about 250 jobs. In manufacturing, multipliers vary from just over two to nearly 3.3.

Because manufacturing, farming, and trucking depend on transportation infrastructure, the quality of our roads and bridges and rail indirectly affects thousands of jobs statewide. Two examples are illustrative.

Suppose that the state expands and improves a stretch of highway between Madison and Eau Claire. That spending will have an immediate, positive impact in the construction sector; road builders will be hired to expand the highway. That hiring multiplies through the economy, supporting or creating additional jobs.

More importantly, the highway improvements might attract new manufacturers along the route. Suppose the improved roadway leads manufacturers—both new and existing—to add 1,000 jobs. The effect of these additional jobs multiplies through the economy, generating another 1,000 to 2,000 jobs in other industries. In this example, the highway improvements helps to create as many as 3,000 jobs statewide.

For every 1,000 jobs lost due to inadequate transportation infrastructure, the state loses approximately 1,000-2,000 jobs in other sectors for a total loss of as many as 3,000 jobs.

Or, consider improvements to Main Street in a medium-sized Wisconsin city. Those improvements might ease traffic congestion or make the downtown more accessible. With more residents and visitors shopping there, local businesses add employees. Moreover, with greater consumer traffic, new businesses are attracted to the area, increasing employment and economic activity in the community.

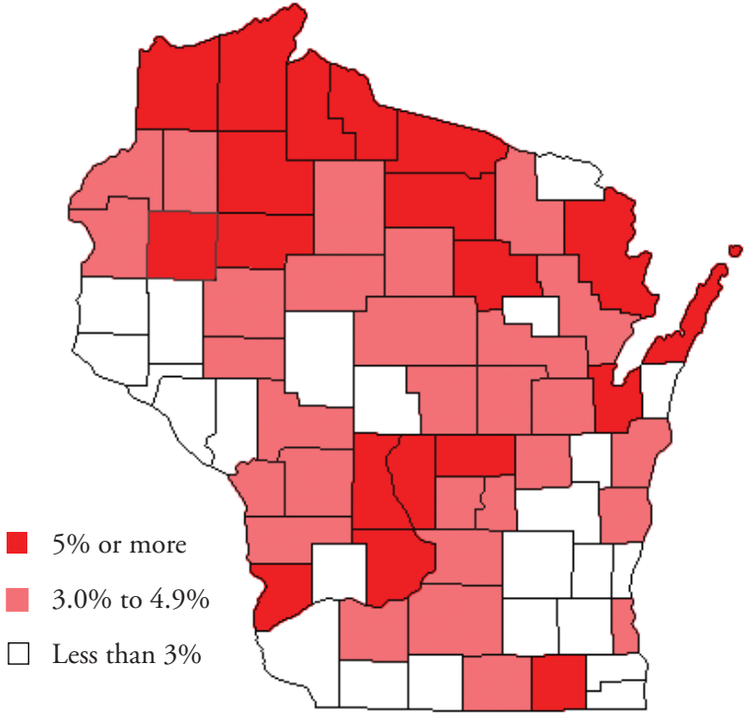
This story has a corollary, as well. What is the impact of <u>not</u> maintaining infrastructure? As the transportation system deteriorates, companies might consider shifting operations elsewhere. For every 1,000 jobs lost in the transportation-dependent manufacturing sector, another 1,000 to 2,000 jobs in other sectors are affected for a total loss of as many as 3,000 jobs.

Tourism

Tourism is not a federally-defined industry like manufacturing or trucking. Rather, the tourism industry is composed of entertainment and recreation destinations, hotels, restaurants, and other retail establishments frequented by visitors from outside the community. Wisconsin has a vibrant tourism industry that relies on a high-quality transportation system. In 2013, tourism spending in Wisconsin totalled $10.8 billion, or nearly 4% of total state output.

While tourism benefits all Wisconsin counties to some degree, the economic impacts are especially large in a few counties. Traveler spending topped 20% of county personal income (one measure of economy size) in Adams, Sauk, and Vilas counties. Regionally, northern Wisconsin benefits the most from tourism. Traveler spending was more than 5% of county personal income in 11 northern counties (12 if Door County is included, see Figure 4).

Figure 4: Tourism Critical to Northern Wisconsin
Traveler Spending % of County Personal Income, 2012



Access to visitor destinations in Adams, Juneau, and Sauk counties is enhanced by interstate highways from Madison, La Crosse, and Minneapolis. Northern Wisconsin relies on a network of smaller roads and highways for access to its destinations. Adequate road and highway maintenance and occasional expansion is necessary to attract the visitors upon which these economies rely.

Commuting

The impact of transportation infrastructure on the business community is clear. But a deteriorating or inadequate system of roads, highways, and public transportation also impacts workers. For the average Wisconsin worker, travel to work takes 21 minutes. Although less than the 25-minute national average, commuting time here is significant. The typical full-time worker spends about 180 hours (more than a full week) per year traveling to and from work.

Commuting times are typically longest for workers who work in a city different from where they live. Commuting patterns between municipalities are one indicator of the need for quality transportation infrastructure.

Table 2 shows some Wisconsin municipalities most impacted by commuting. For example, the Village of Kohler's population is just over 2,000. Yet, on a typical workday, its population swells to nearly 8,000 due to residents from other communities driving to work there. The 289% increase was the largest reported by the U.S. Census Bureau.

Table 2: Commuting by Municipality
Population Changes Due to Commuting, 2006-10 Average

	Resident Population	Daytime Population	% Change
	Largest Gains		
Kohler	2,046	7,951	288.6%
Whitehall	1,674	5,354	219.8
Shorewood Hills	1,593	4,299	169.9
Butler	1,808	4,164	130.3
Eagle River	1,542	3,513	127.8
Schofield	2,413	5,435	125.2
Hayward	2,195	4,744	116.1
Ashwaubenon	17,108	35,470	107.3
Medford	4,351	8,707	100.1
Rhinelander	7,894	14,393	82.3
	Largest Losses		
South Milwaukee	20,971	15,664	-25.3
Twin Lakes	5,901	4,228	-28.4
Muskego	23,726	16,900	-28.8
Shorewood	13,144	9,226	-29.8
McFarland	7,574	5,249	-30.7
Caledonia	24,540	16,989	-30.8
North Fond du Lac	4,935	3,220	-34.8
Richfield	11,225	7,282	-35.1
Suamico	10,867	6,840	-37.1
Kronenwetter	6,887	4,200	-39.0
	Largest Municipalities		
Milwaukee	589,697	620,609	5.2
Madison	229,236	292,502	27.6
Green Bay	103,960	118,177	13.7
Kenosha	98,297	90,321	-8.1
Racine	79,664	84,068	5.5
Appleton	72,620	83,419	14.9
Waukesha	69,946	76,063	8.7
Oshkosh	65,507	75,158	14.7
Eau Claire	65,133	78,554	20.6
Janesville	63,441	68,292	7.6

The difference in daytime and resident population actually underestimates the level of commuting, though. In Kohler, the population rises by 5,905. However, that figures indicates the number of net in-commuters (in minus out). Since some Kohler residents are working in other cities, the total number of commuters is larger.

Other cities or villages significantly impacted by commuting were: Whitehall, Shorewood Hills, Butler, Eagle River, Schofield, Hayward, Ashwaubenon, Medford, and Rhinelander.

The pattern was reversed in some communities. Kronenwetter in Marathon County had the largest percentage decline in population during the day; i.e., a relatively large number of residents leaving the community for work. Table 2 lists other communities with relatively large levels of out-commuting.

The table also reports figures for some of the state's largest cities. Being the home to state government and Wisconsin's largest university, Madison attracts significant numbers of commuters from surrounding municipalities. The transportation infrastructure these larger communities have to maintain is broader than that for smaller cities and villages. While the latter are concerned mostly with roads, large cities require other forms of public transit to get residents from one part of the city to another.

SECTION III: THE FUNDING GAP

It should be clear that transportation infrastructure is critical to state prosperity. Yet, it is also abundantly clear that how the state funds its transportation needs is increasingly outdated. A look at projected state transportation spending and revenues reveals a growing gap between the two over the next 10-20 years.

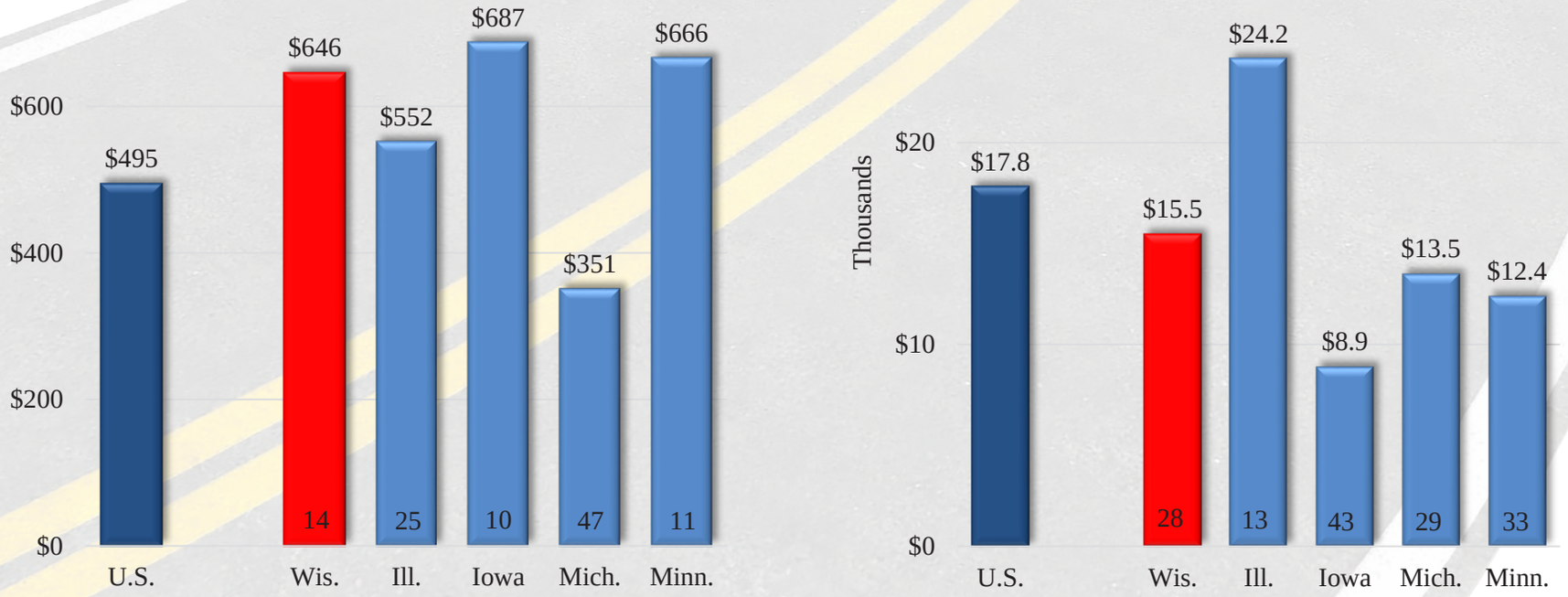
National Spending Comparisons

Wisconsin spends more per capita on transportation than most other states (see Figure 5, left chart), but that does not suggest profligacy or waste. Two factors—weather and road miles—explain nearly all of the difference in highway spending.

Roads and Highways. When state and local spending is combined, Wisconsin spent $646 per capita on roads and highways in 2011, according to the most recent figures available from the U.S. Census Bureau. Wisconsin's spending was 31% more than the national average ($495) and 14th highest among the states.

☐ *More Lane Miles.* One factor that explains transportation costs in Wisconsin is the size of its road and highway system. The state has about 42 lane-miles of road per 1,000 residents, 19th highest nationally. One of the reasons for our expanded road system is our dairy heritage. Many town roads were built so milk trucks could get to farms. In many areas, the farms are gone but roads remain along with the expectation of access by locals, even if the road only serves non-farm houses.

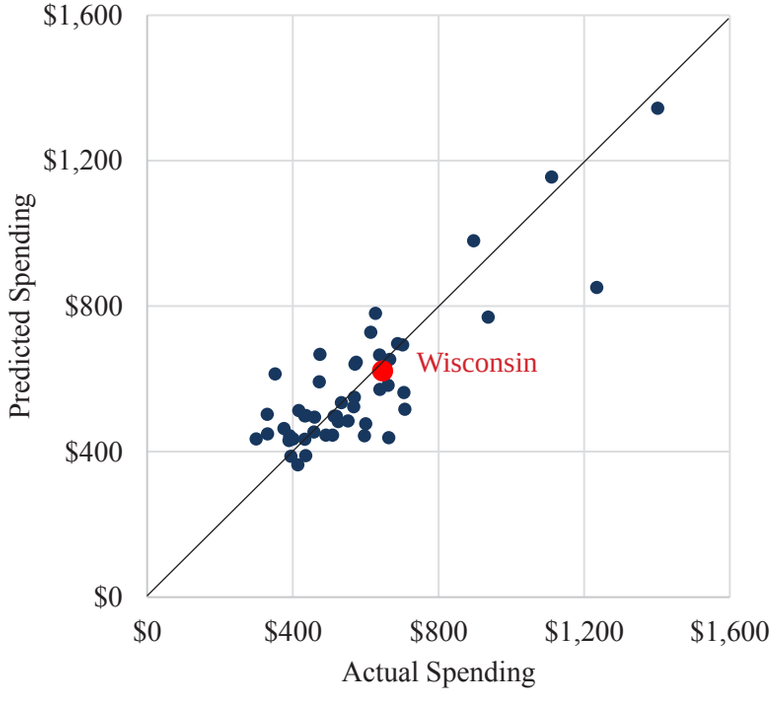
Figure 5: Comparing Road and Highway Spending
Per Capita (left) and Per Lane Mile (right) State-Local Spending on Roads and Highways, 2011



When spending is linked to road miles, the Badger State spends below average (see Figure 5 on page 11, right chart). Nationally, states spent an average of $17,800 per lane mile in 2011. Wisconsin spent $15,500, which was the 28th highest amount nationally. Michigan and Wisconsin have a similar number of lane miles, the former state has a much larger population, so its per capita spending is significantly lower.

☐ *Snow and Ice.* In addition, climate plays a significant role in increased spending here. Harsh winters take their toll on roads, requiring maintenance spending not needed in more temperate states. A look at state rankings on transportation spending makes the role of climate clear. Among the top 14 states in per capita spending, all but Louisiana have significant annual snowfall. Neighboring Iowa and Minnesota ranked 10th and 11th, respectively, on road and highway spending. Thus, Wisconsin is somewhat unusual in that it has a lot of roads and highways that need to be kept clear of ice and snow in the winter, and repaired each spring. One way to show how important these two factors are is to regress (a statistical analysis tool) state by state transportation spending on these two variables. Figure 6 shows, for each state, the model's spending prediction (vertical axis) and its actual spending (horizontal axis). If these two factors could predict highway spending perfectly, each state's marker would fall on the 45-degree line.

Figure 6: Wisconsin Trans. Spending and Weather, Lane Miles
Est. Spending by State Predicted by Avg. Snowfall and Lane Miles, 2011



During 2000-11, Wisconsin's average annual increase in highway spending slowed to 2.2% from 5.5% during 1993-2000. Growth here ranked 30th among the states.

The nearness of each state's marker to the line indicates that these two factors explain a significant share of the state-by-state variation in transportation spending. Wisconsin (red marker) falls just below the line, indicating these two factors account for nearly all of the difference between Wisconsin's per capita highway spending and spending in other states. And they are important reminders of why road and highway spending here will remain above average for years to come.

Spending Changes. While per capita highway spending here is high relative to other states, it is nevertheless slowing relative to the rest of the nation. Between 1993 and 2000, Wisconsin per capita highway expenditures rose an average of 5.5% per year, one full

percentage point faster than the nation (4.5%) and 18th highest among the states. During the more recent 2000-11 period, Wisconsin's average annual increase dropped by more than half, slowing to an average of 2.2% per year. That was less than the U.S. average (2.8%) and 30th among the states.

Shifting Priorities

Several factors account for the slowdown in Wisconsin's transportation spending. First, state-local revenues increased at more modest rates during 2000-11 (4.0% per year) compared to 1993-2000 (5.6%). The earlier period was one of strong economic growth and rising tax collections. By contrast, 2000-11 was characterized by two recessions that were followed by lackluster recoveries, which slowed tax collections. Moreover, a combination of state income tax cuts and indexing (adjusting brackets and the standard deduction for inflation), and local property tax limits further slowed state-local revenue growth.

Second, other pressing public needs are increasingly competing for funding support. In Wisconsin, transportation was not as high a priority as some other areas during the latter period.

Table 3: Wisconsin's Shifting Priorities
Major State-Local Spending Areas, Avg. Annual Changes, 1993-2011

	1993-2000		2000-11	
	Wis.	U.S.	Wis.	U.S.
Total Expenditures	4.5%	4.3%	3.5%	4.1%
Highways	**5.5**	**4.5**	**2.2**	**2.8**
Corrections	9.0	6.1	3.1	2.8
K-12 Education	4.4	4.9	2.5	3.1
Higher Education	4.3	4.9	5.0	4.9
Public Welfare	2.7	3.6	7.0	6.0

During 1993-2000, highway spending increased faster than total state-local spending both here (5.5% per year vs. 4.5%) and nationally (4.5% vs. 4.3%). In Wisconsin, only spending on corrections (9.0%) increased more than for highways. Table 3 shows state-local spending on major programs for both Wisconsin and the U.S.

During 2000-11, transportation spending in Wisconsin was "crowded out" to some extent by large increases in public welfare spending, mostly Medicaid.

In most spending areas, expenditure increases after 2000 were noticeably less than during 1993-2000. In Wisconsin, there were two notable exceptions—public welfare and higher education. The public welfare category includes Medicaid programs, which have expanded rapidly over the past 15 years. It was the fastest-growing spending category during 2000-11 both here and nationally.

Of five major areas shown in Table 3, highway spending increased the least (2.2% per year) in Wisconsin. Moreover, highway spending here grew less than nationally (2.8%).

A Revenue Problem?

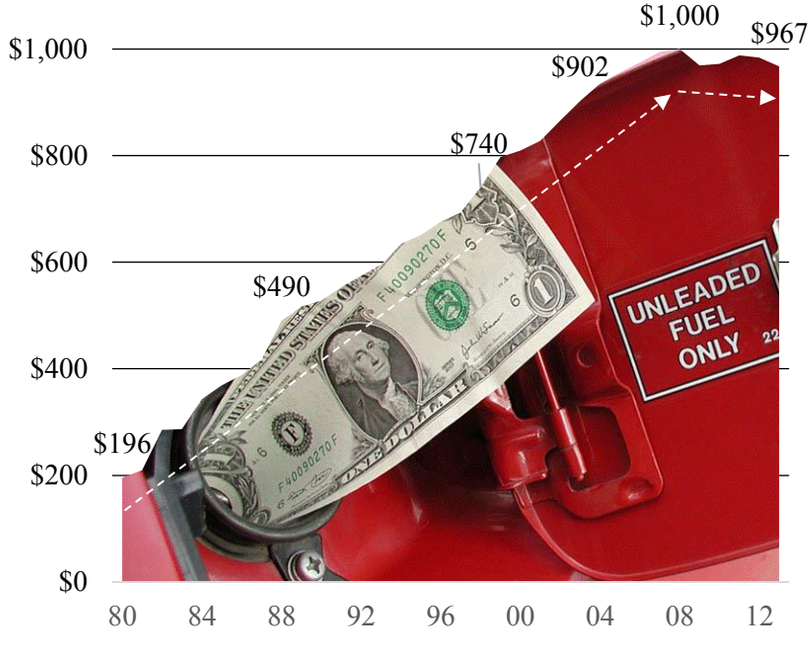
A third factor in the spending slowdown here was a slowing of transportation fund revenues.

The primary funding source for transportation in Wisconsin is the state transportation fund. In 2013, monies from this fund paid for 57% of the state's $3.3 billion in transportation expenditures. The remainder was funded mostly with federal aids (26%) and borrowing (9%).

In recent years, as transportation revenues moderated, the transportation fund paid for a smaller share of state transportation spending than previously. During 1998-2001, those revenues accounted for an average of more than 60% of the transportation budget. The question then is: What caused the revenue slowdown and what does that mean for the future.

Slowing Gas Tax Revenues. Gas taxes account for more than half of all transportation fund revenues. Yet, growth in gas tax collections have slowed over the past 15 years. During the past 15 years, gas tax collections:

Figure 7: Gas Tax Collections Stall
Wisconsin Gas Tax Revenues, 1980-2013, $ Millions



- rose 22% during 1998-2003;
- rose a more modest 11% during 2003-08; and
- declined during 2008-13 (see Figure 5).

Had Wisconsin continued to index the gas tax after 2006, it would have generated an additional $735 million during 2007-13.

Part of this deceleration and decline is due to changing driving patterns. During 1998-2003, total vehicle miles traveled in Wisconsin rose 6%. During the ensuing five years, they dropped 4%. In fact, travel fell in three of these five years, including a more than 3% decline during recessionary 2008. Vehicle miles travelled rebounded in 2008-13, but the 4% increase was less than during 1998-2003.

A second factor in the diminishing importance of the gas tax is rising fuel efficiency. In 1998, cars and light trucks achieved an average of 21.6 miles per gallon (mpg). By 2010, the average had risen to 23.5 mpg. The 9% increase in fuel efficiency translated directly into less gas purchased and fewer gas taxes paid.

A third factor was the end of gas tax indexing in 2006. Wisconsin's gas tax was 9¢ per gallon in 1980. Legislative actions over the next several years raised the tax to 16¢ per gallon by 1984. Then, rather than continue legislated increases each year, lawmakers decided to index the gas tax; that is adjust it each April to reflect inflation. Along with two additional statutory changes, indexing raised the tax to 30.9¢ by 2006.

In December 2005, lawmakers repealed indexing, with the last increase occurring in April 2006. The tax has remained at 30.9¢

since. The tax increases due to indexing accounted for more than 40% of the rise in gas tax collections after 1984. Had lawmakers continued indexing after 2006, gas tax collections in 2013 would have been about $175 million higher than actual collections; they would have generated an additional $735 million during 2007-13.

One of the concerns with indexing was that it might push Wisconsin's gas tax significantly above other states. However, the Badger State's gas tax rate was already the highest in the country in 1985 due to the legislative increases in prior years; in 1980, it ranked 18th. During the indexing years, the state's gas tax dropped to as low as 11th (1995) and climbed back to 3rd in 2006. By 2012, it had fallen to 7th.

Vehicle Registrations Stagnate. While gas tax revenues comprise more than half of transportation fund revenues, vehicle registration fees account for another third. And with the exception of gains due to fee increases, these revenues have grown modestly of late.

During 2002-09, collections from vehicle registrations rose an average of 6.9% per year. However, that figure was driven by two fee increases during those eight years. In October 2003, the fee was raised 22% from $45 to $55. In January 2008, it was increased 36% to its current $75. During 2009-13, with no additional fee increases, revenues rose an average of just 0.5% per year.

Gas taxes and vehicle registration fees combined rose an average of 0.3% per year during the past five years.

Help From the General Fund. When all traditional transportation fund revenues are combined, growth during 2009-13 averaged only 0.8% per year. That led to the 2011-13 state budget supplementing the transportation fund with general fund dollars. The budget provided for an ongoing transfer of 0.25% of general fund taxes to the transportation fund beginning in 2013 (about $35 million). It also shifted provided for a one-time shift of $125 million in general fund taxes to the transportation fund.

Two fee increases during 2002-09 helped drive collections of vehicle registration fees higher by an average of 6.9% per year. With no additional fee increases since, collections rose an average of just 0.5% per year.

The 2013-15 state budget provided another "one-time" transfer of $133 million from the general fund. These provisions provide a temporary boost to transportation funding but do not address long-term revenue problems.

Can We Rely on the Feds? As mentioned, federal money comprises more than one quarter of the transportation budget. But the state cannot rely on the federal government to solve its transportation funding problems. With the exception of some federal stimulus funding in 2009 and 2010, federal transportation dollars to Wisconsin have remained largely unchanged since 2007. That year, they were $853 million. They reached $873 million in 2011, but fell to $851 million in 2013.

The underlying reality is that federal Highway Trust Fund is struggling. This summer it needed a temporary infusion of revenue from other sources. Federal gas tax revenues are expected to fall about $8 billion short of the amount of aid allocated to states this year. That could mean a 25% to 30% reduction in federal money flowing to the state transportation fund.

Moreover, the gridlock in Washington hinders finding a permanent solution. The national gas tax has not changed since 1993.

Similar to the Wisconsin story, rising fuel efficiency has slowed federal gas tax collections, helping to deplete the federal fund.

Borrowing? Because roads, highways, and bridges are capital investments that last for decades, the state borrows for some of the constructions costs. That is not unusual. During 1998-2003, borrowing was a fairly constant share of the state transportation budget—about 6%.

However, legislative solutions to state budget problems over the next several years changed that. The state faced significant budget holes during 2003 through 2011. One tactic used to balance the state budget was the shifting of gas taxes and vehicle registration fees to the general fund. During those years, $926 million was drained from the transportation fund.

To help offset the transfers, the state authorized additional borrowing. New borrowing reached nearly 22% of the transportation fund budget in 2011. Although it fell to 9.2% in 2013, that percentage was 50% higher than during 1998-2003.

The borrowing helped to keep the transportation budget funded. However, it had long-term implications for dollars available to pay for transportation in future years: Debt service costs have grown rapidly over the past several years.

During 1998-2002, debt service was fairly constant at about 7% of transportation fund revenues. With the additional borrowing in subsequent years, it increased to 10.2% in 2007. By 2013, debt service claimed nearly 16% of transportation fund revenues. That leaves fewer dollars for state highways and bridges or for local transportation assistance.

Rising Costs

What makes the revenue problem even more serious is the significant rise in the costs of maintaining existing or building new roads and bridges. For example, asphalt prices rose 131%, or an average of nearly 11% per year, during 2005-13. By comparison, the overall inflation rate was less than 20% during that period. Thus, even if transportation revenues kept pace with inflation, they would not have kept pace with the rising costs of transportation materials.

During 2009-13, vehicle registration fees increased an average of just 0.5% per year. When combined with gas taxes, the two primary transportation revenues rose an average of 0.3% annually.

A Funding Gap

Without changes to the status quo, state officials expect to have approximately $25 billion available for transportation funding over the next 10 years. A recent Wisconsin Transportation Commission identified several transportation spending scenarios. If spending were to remain at 2013 levels over that period, the state would be short $2 billion. Alternatively, the state could spend enough just to preserve the condition of the current infrastructure. It would not address congestion or the expansion of any part of the system. Under the current funding model, the state would be $5.8 billion short over the next 10 years.

Under another scenario, the state could keep all transportation services and conditions at current levels, including enough expansion to keep congestion levels stable. To do this, the state would need

$15.3 billion more than currently available.

The state could also be more aggressive in its transportation expenditures. In addition to doing everything from the above scenario, the state would address "public transport, airport, freight rail and commercial port systems,"

The transportation commission recommended something more than just preserving current infrastructure. Under their recommendation, the gap between spending needs and available revenues (the funding gap) approaches $7 billion.

The consequences of not solving the funding gap are dire. About 20% of the state highway system is currently rated as poor or worse. That percentage would more than double to 42%. Congestion would increase by 22%. With an economy as transportation dependent as Wisconsin's, the economic effects of doing nothing are likely lost jobs and their associated incomes.

SECTION IV:
THE LOCAL SQUEEZE

As previously discussed, a shift in priorities between major program areas tended to squeeze out state-local transportation spending during 2000-11. But another shift was occurring in Wisconsin as well. Due largely to state budget problems, increased focus on property taxes, and slowing transportation revenues, local budgets generally and local transportation budgets in particular were scaled back. Budgets were further stressed by increases in the costs of salt, road-building and maintenance products, and gasoline.

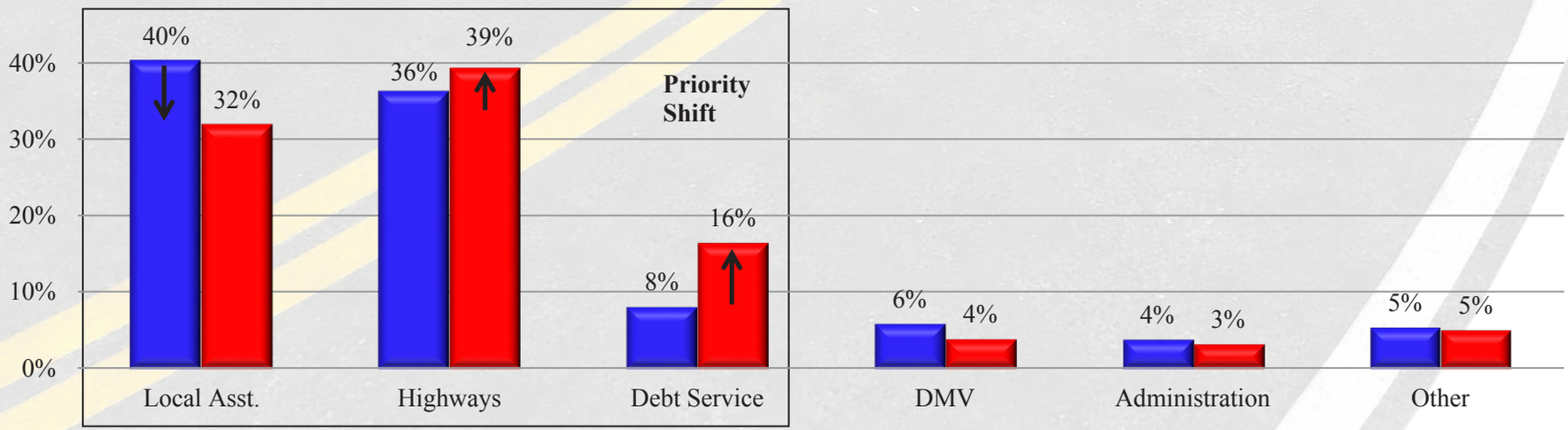
Local Revenues

Municipalities and counties generate revenues from a variety of sources. For municipalities, property taxes (44% of general revenues), state shared revenues (13%), and state transportation aids (6.3%) comprise nearly two-thirds of revenues. For counties, these three sources combine for about 45% of revenues. Each of these revenues has been either limited or cut over the past 15 years.

Transportation Aids. State transportation aids help cities, villages, towns, and counties pay for local roads and other transportation infrastructure. However, those aids have grown slowly since 2000. During 2000-13, local transportation aids rose an average of just 1.6% per year. If local capital assistance (support for rail, harbor, aeronautics programs, bicycle and pedestrian facilities, as well as local road and bridge projects) is included, the average increase drops to 1.4%. Moreover, local assistance declined in both 2012 and 2013; local capital assistance fell in 2011 and 2012.

Figure 8 highlights the shift that occurred over the past 14 years. In the 1999-2001 biennium, 40% of state transportation spending was local assistance, 36% was for state highways, and 8% was debt service. The 40% local assistance percentage was similar in 1995-97 and in 1997-99.

Figure 8: Highway Spending, Debt Service Claiming Increasing Share of Transportation Fund
Shares of Transportation fund Spending, 1999-2001 (blue) and 2013-15 (red)

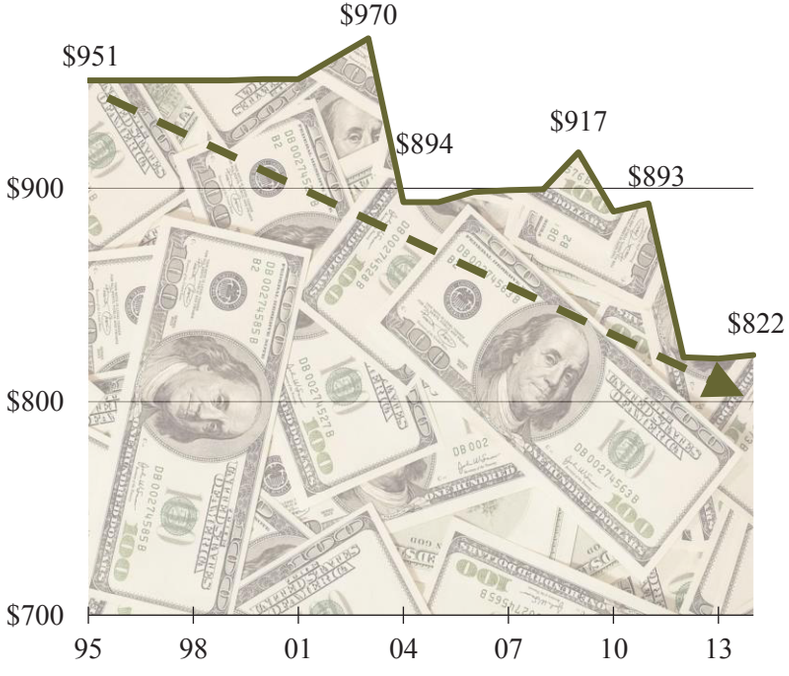


Over the ensuing seven budget cycles, the spending mix shifted considerably. In 2013-15, only 32% of transportation spending was aid to local governments. Spending on state highways claimed 39% of the total, and debt service 16%.

While transportation spending was 50% larger in 2013-15 than in 1999-2001, local assistance rose only 19% over that time. Spending on state highways climbed more than 63%. Had 2013-15 local assistance claimed the same share of transportation spending as it did in 1999-2001, it would have been $324 million (26%) higher during this biennium.

For local governments, state transportation aids are important to help fund infrastructure. However, they are only one piece, and a relatively small piece, of local transportation spending. General transportation aids are by far the largest component of local transportation aids; in 2013 they were more than half of all local transportation aids. Yet, this allocation reimbursed counties for less than 20% of their expenses; municipalities, 21%. If aids from the local road and bridge programs are added, state assistance pays for less than 30% of costs. The remainder is funded through property taxes, fees, or other revenue sources.

Figure 9: Shared Revenues Declining
Shared Revenue Payments, 1995-2014, $ Millions



During 2000-13, local transportation aids rose an average of 1.6% per year. If local capital assistance is included, the average drops to 1.4%. Moreover, local assistance declined in both 2012 and 2013.

A municipality or county faced with stagnant road aids has a couple of options. First, it can scale back its spending on local transportation infrastructure to reflect the limited state assistance. However, that deferred maintenance means higher maintenance or construction costs down the road. Recall that asphalt prices have risen more than 10% per year since 2005. Alternatively, it could fund its road plan with other revenues, typically property taxes or shared revenues. Shared revenues are unrestricted state aids; they can be spent on any local government service. For local governments, the bad news is that both property taxes and shared revenues have also been limited or cut.

Shared Revenues. At one time, shared revenues (also known as county and municipal aids) were a major revenue source for municipalities. In 1986, they accounted for more than 30% of general revenue.

However, shared revenues have been stagnant or declining since the mid-1990s. During 1996-2001, they were increased once, by 0.1%. After two 1% increases in 2002 and 2003, they were cut nearly 8% in 2004 (see Figure 9 on page 18).

Then, after several small increases after 2004, shared revenues were cut 3% in 2010 and another 8% in 2012. At $822 million, 2014 shared revenue payments are 15% below their 2003 peak of $970 million. They are nearly 30% below in terms of purchasing power, i.e., adjusted for inflation. In 2012, the most recent year for full municipal finance data, shared revenues accounted for only 13% of municipal general revenues.

Property Taxes. With declining shared revenues not a viable option to replace state transportation aids, local governments might look to property taxes. However, beginning in 2006, lawmakers capped increases in property taxes for municipalities and counties.

During 2000-05, total property tax levies rose an average of 5.7% per year. Both municipal (5.6%) and county (5.8%) levies rose at similar rates. However, during those same years, total state personal income rose an average of 4.5% per year. With property taxes growing faster than incomes, lawmakers sought ways to bring the two back in line.

The 2005-07 state budget placed new restrictions on municipal and county property taxes. In 2006 and 2007, they were allowed to increase by the greater of 2% or the percentage increase in property values due to new construction. The former percentage was changed in subsequent budgets to: 3.86% for 2008; 2.0% for 2009; 3.0% for 2010 and 2011; 0% for 2012-15. With new construction modest during and after the recession, local property tax increases were small.

The impact on municipal and county levies is stark. During 2005-11, growth in municipal levies slowed to an average of 3.7% per year; counties, 3.2%. However, over the past three years, with increases only allowed for new construction or by voter approval, levy growth slowed further, to an average of 1.7% for municipalities and 1.0% for counties.

Increased transportation costs, slow-growing transportation aid and property taxes combined with declining shared revenues leave local governments with few options to fund transportation needs.

Increased transportation costs, slow-growing transportation aids and property taxes combined with declining shared revenues leave local governments with few options to fund transportation needs and make it more likely that they defer needed maintenance.

Moreover, tight revenues limit local governments' ability to react to situations outside their control. Winters with above-average snowfalls are one example. Overtime from snow plowing combined with salt and sand costs can quickly drain local transportation budgets.

Local Spending

With revenues tight of late, local spending has slowed with transportation spending among the hardest hit. During 1990-2000, municipal spending rose an average of 5.4% per year. Over the subsequent five years, average annual growth slowed to 3.9%. Then, during 2005-12 when levy limits were in place, spending slowed further to an average of 2.4% per year.

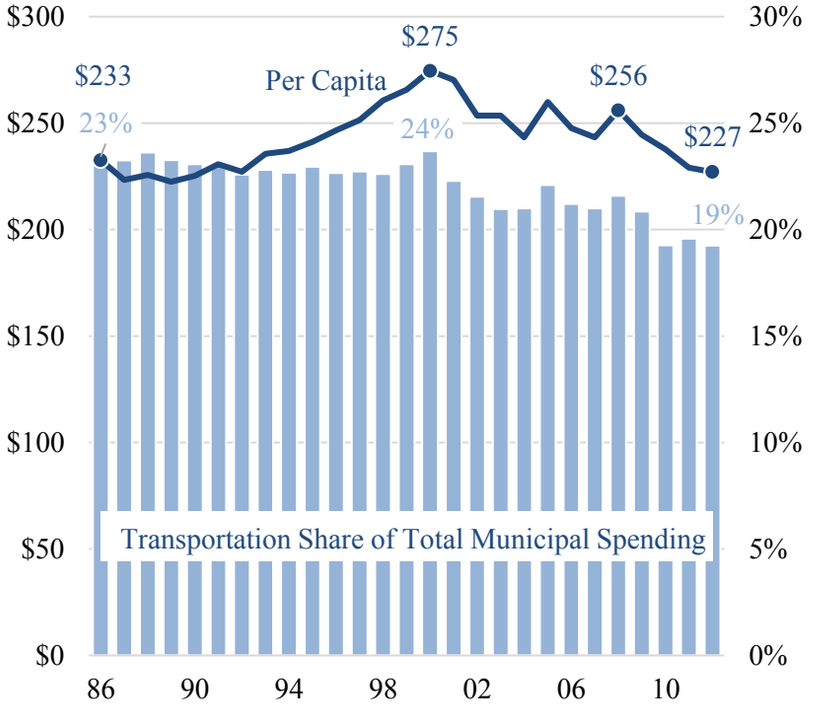
While local transportation spending rose faster than other spending during the 1990s (5.7% average vs. 5.4% for total), it has lagged

since. During 2000-05, municipal transportation spending rose an average of 2.4% per year; during 2005-12, just 0.5% per year.

When population and inflation are accounted for, spending has generally declined since 2000. In that year, real per capita spending was $275 (see Figure 10). It declined to $243 by 2007, and was at $227 in 2012. In 2000, about one dollar of every four of municipal expenditures was for transportation (see bars in Figure 9). In 2012, less than one in five was.

Wisconsin's Shift Unusual. National figures from the U.S. Census Bureau show Wisconsin is somewhat different in its approach to transportation spending, and the "local squeeze" is somewhat unusual.

Figure 10: Transportation Spending Lags
Per Capita Municipal Transp. Expenditures Adj. for Inflation, 1986-2012



In 2000, about one dollar of every four of municipal expenditures paid for transportation. Due to limited revenue growth in subsequent years, cities and villages shifted spending to other priorities. In 2012, less than one in five dollars of spending was transportation-related.

Traditionally, Wisconsin transportation spending has been more local-oriented than other states. For example, in 2000, local highway spending here averaged $302 per capita, more than double the U.S. average and 3rd highest nationally (see Table 4 on page 21). State highway spending averaged $206 per capita, less than the national average and 37th among the states.

One of the reasons for Wisconsin's high rank on local spending is the extent of our local road system generally, and the fact that it is mostly paved. In 2011, Wisconsin had more than 18 miles of local roads per 1,000 residents, the 15th highest amount nationally. However, most of our roads are paved. We have about 15 miles of paved roads per 1,000 residents, fifth highest among the states.

The state-local spending pattern has shifted as the state's local transportation spending has slowed. The right side of Table 4 highlights the change. During 1993-2000, per capita state transportation spending rose slightly faster than local spending (5.7% per year vs. 5.3%). Nationally, the pattern was flipped, but during this period at both the state and local levels, spending growth here outpaced the U.S. Wisconsin ranked 22nd in local spending growth and 16th at state spending growth.

That changed after 2000. While state transportation spending slowed to an average of 4.1% per year, local spending growth dropped to an average of 0.6%. Wisconsin ranked 12th in state highway spending growth during 2000-11, but 48th in local spending.

Summary

The data paint a fairly clear picture. Wisconsin has a transportation funding problem. It pays for much of its transportation needs with revenue sources that are not growing, while expenses for gas, salt, and road-building and maintenance supplies rise. However, the funding issue for local governments is even more dire. Many of their revenue streams are now controlled by the state. Shared revenues and local transportation assistance are determined during the state budget process. More than 10 years of state budget problems that included temporary fixes have limited or cut these aids. The problem is further exacerbated by state-imposed property tax limits in place since 2006.

Table 4: Shifting Priorities
State vs. Local Transportation Spending,
Wis. and U.S., Avg. Ann. Changes, 1993-2011

	P.C. Amount			Avg. Annual Ch.		
	U.S.	Wis.	Rk.	U.S.	Wis.	Rk.
			Local			
1993	$103	$210	2			
2000	141	302	3	4.7%	5.3%	22
2011	197	325	7	3.1%	0.6%	48
			State			
1993	164	139	45			
2000	222	206	37	4.4%	5.7%	16
2011	298	322	28	2.7%	4.1%	12

Wisconsin has more than 18 miles of local roads per 1,000 residents, the 15th highest amount nationally. And most of our roads are paved: We have about 15 miles of paved local roads per 1,000 residents, fifth highest among the states.

These figures highlight a precarious situation for local governments here. State actions on shared revenues, local transportation aids, and property taxes have greatly limited options to pay for local transportation needs. Next we lay out some general funding principles, followed by some options to fund transportation in Wisconsin, with a focus on local funding options.

SECTION V: FUNDING PRINCIPLES

Prior to outlining solutions to Wisconsin's transportations funding gap, it is useful to consider some principles that can be used to evaluate alternative revenue options. A 2007 report from the National Conference of State Legislatures' (NCSL) 2007 report is a good starting point.

NCSL listed several principles of a high-quality state revenue system. Although meant to assess a state's overall revenue system, these guidelines can be used to evaluate various approaches to transportation funding.

Complementary

First, the elements of a revenue-generating system should be complementary, rather than contradictory. Of particular concern is how state and local elements work together. In Wisconsin, local governments do the majority of transportation spending, but the state raises much of the revenue. This dichotomy creates tension, dependence, and unpredictability.

Reliable

Any funding mechanism should be stable and predictable over time. In other words, if one revenue source is highly sensitive to economic conditions, it should be balanced with another less vulnerable to the vagaries of the economy. A revenue system should also be sufficient to pay for desired services.

Balanced

A revenue system should be balanced, relying on a variety of funding sources. Depending too much on one revenue source can lead to funding shortages should changing conditions negatively impact that source. Part of Wisconsin's current trouble is the lack of a balanced system; heavy reliance on the gas tax leaves us vulnerable to technological advances; e.g., increased fuel efficiency.

Responsive to Interstate Competition

Care must be taken to ensure that a revenue system does not create "tax islands." Thus, we must be cognizant of how transportation revenues are raised, how they are spent, and the impact of both on economic competitiveness. Furthermore, if a revenue system has a significant local component, awareness of the impact on municipal, county, or regional competitiveness should also be considered.

Facilitates Taxpayer Compliance

A revenue system should avoid burdensome paperwork and regulations. Additionally, taxpayers should consider the system "fair." These features encourage taxpayer compliance and minimize enforcement costs.

Accountable

According to NCSL, "tax laws should be explicit, not hidden." Any changes to the revenue system should be well publicized to encourage debate. Although indexing the gas tax to inflation helped make Wisconsin's transportation funding system more reliable, it also made it less transparent.

Equitable

A revenue system should impose similar tax burdens on taxpayers in similar situations. It should also recognize "ability to pay," and avoid placing more of a tax burden on low-income households than on middle- or high-income households.

SECTION VI:
SOLVING THE GAP: A STATE APPROACH

Wisconsin has several options for "solving" its transportation finance problems. The most obvious is to maintain the funding framework in place but increase current taxes and fees, or supplement them with new ones. Ideally, this framework would allow state transportation aids to grow sufficiently to meet local needs.

Alternatively, the state could continue to fund its own spending via the Transportation fund and provide local governments with the tools to pay for their own particular needs.

The Status Quo, Only More

As outlined in the 2013 Transportation Commission (commission) report, the state has several options to solve its transportation funding problem, including higher gas taxes and imposing one or more new transportation taxes or fees. The following is a menu of options the state has available to fix the transportation funding gap.

Gas Tax Hike? All states impose a gas tax. At 30.9¢, Wisconsin's is sixth highest nationally. States with higher tax rates are Pennsylvania (40.7¢), California (39.5¢), North Carolina (37.5¢), Washington (37.5¢), and Rhode Island (32.0¢). Among neighboring states, Wisconsin's rate is the highest. In Michigan and Illinois, a gallon of gas is taxed at 19¢; in Iowa, 21.0¢, and in Minnesota, 28.5¢.

The commission recommended a 5¢ per gallon increase to generate an additional $1.59 billion over 10 years. The increase would move Wisconsin's rate up one spot to fifth highest among the states. However, many states are dealing with transportation funding issues making rate hikes elsewhere likely.

Raising the gas tax has several advantages. First, it is familiar: Drivers already pay the tax; it is not something new. Second, there are no implementation costs, as opposed to some of the other alternatives that have large start-up costs. Finally, continued use of the tax ties the revenue source to road use, a feature that economists and public finance experts generally advocate.

Wisconsin currently has the sixth highest gas tax nationally. A 5¢ per gallon increase would generate an additional $1.59 billion over 10 years and would move the state's rank to fifth.

The gas tax also has disadvantages. First, raising the tax rate is a temporary fix. The increase would initially generate 16% more revenue. However, collections would subsequently grow slowly or even decline as vehicles continue to become more fuel efficient as mandated by federal law. Wisconsin would likely confront the same funding issues again in the future. Second, the gas tax is often considered to be regressive; i.e., it affects low-income families more than high-income ones.

Rather than a one-time increase in the tax, the state could return to indexing the tax as several states do. Wisconsin indexed its rate to the consumer price index during 1985-2006, but other indexing options are also available. For example, Kentucky, Nebraska, and North Carolina adjust their rate based on the average wholesale gas price. California ties its rate to the retail price.

The commission estimated that a return to indexing combined with a "catch-up" adjustment to reflect inflation since 2006 would increase the tax rate to 37.9¢ per gallon by 2015. At that rate, Wisconsin would have the third highest gas tax in the country. The in-

crease would boost gas tax collections by 23% (about $211 million). Moreover, indexing would help collections grow over time.

One criticism of indexing is that it could push the state tax significantly higher than in other states. However, that was not the case during Wisconsin's 20-year experiment with indexing, as other states raised their taxes during this period.

The state's gas tax was 18th highest in 1980. Legislated increases over the next several years moved it up to number one in 1985. However, during the ensuing years, it dropped to as low as 11th in 1995, and was 7th highest when indexing ended. Rate increases adopted here during 1985-2006 were not unusual. Our gas tax rose 54.5%, less than 20 other states.

Sales Tax on Gasoline. Nine states, including neighboring Illinois and Michigan, impose a sales tax on gasoline purchases. While the commission did not recommend this, it estimated that applying Wisconsin's 5% sales tax to fuel purchases would generate about $530 million in the first year. Were gas prices to rise an average of 2% per year, it would generate $5.8 billion over 10 years. Moreover, the optional 0.5% county tax would generate additional revenues that could be directed to county transportation needs.

This approach, too, has advantages and disadvantages. Among the advantages are low implementation costs and public familiarity. In addition, it upholds the "user fee" principle—those who use the service (roads) the most, pay the most. Collections would also keep pace with inflation and rising transportation input costs. Plus, a sales tax on fuel could fund nearly all of the 10-year $6.8 billion funding gap.

One drawback to this approach is that gas prices can be volatile and increased fuel efficiency will limit revenue growth. Finally, the sales tax is considered regressive; adding gasoline to the sales tax base would exacerbate this problem.

Applying Wisconsin's 5.0% state sales tax to gasoline purchases could generate $530 million in the first year. Were gas prices to rise 2% per year, it would generate more than $5 billion over 10 years, filling nearly all of the projected $6.8 billion shortfall.

Registration Fees. States also impose fees to register vehicles. Some also permit local registration fees.

State-by-state comparisons of registration fees can be difficult, since states vary in how they are imposed. Like Wisconsin, some assess a flat fee. Others charge fees based on vehicle age, value and/or weight. The most common feature used to calculate registration fees is weight (18 states).

According to DOT, Wisconsin's registration fees are the lowest in the region. For a relatively new mid-sized sedan, 2012 fees ranged from $99 in Illinois to $307 in Minnesota (see Figure 11 on page 25). For a more expensive SUV, fees ranged from $99 in Illinois to $460 in Minnesota.

When transportation fees are added to gas taxes, the total burden in Wisconsin is relatively modest. Gas taxes and fees totalled $254 for the sedan and $322 for the SUV. Due to poorer gas mileage, the SUV owner pays more in gas taxes. For both vehicle types, owners in Minnesota pay the most, followed closely by those in Iowa.

Increasing vehicle registration fees is another alternative to addressing the transportation funding gap. Wisconsin's last fee change

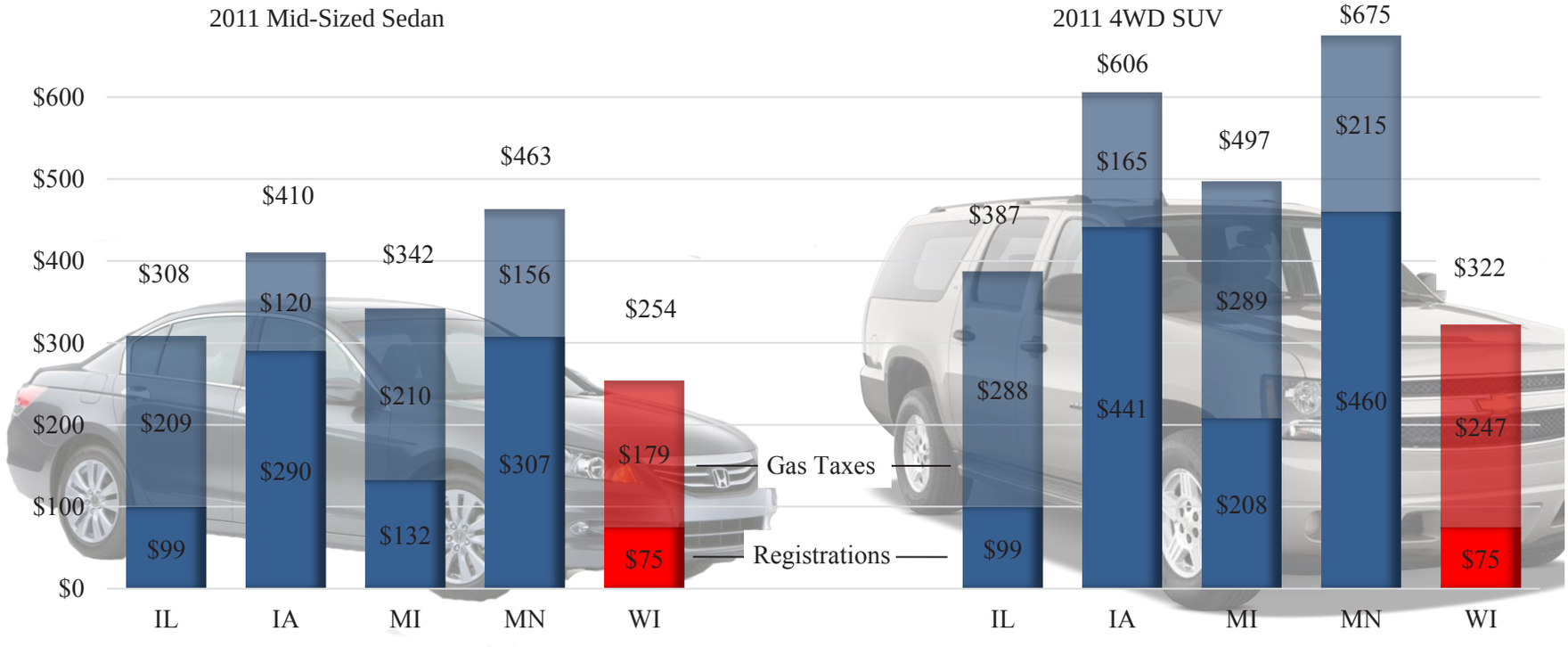
was in 2008 when fees were increased 36% from $55 to $75. For every $1 increase in these fees, approximately $4.4 million is generated annually. Thus, increasing the fee to $100 would yield about $110 million per year, or more than $1 billion over the next ten years.

Like the gas tax, a registration fee can be indexed for inflation. The commission estimated that over 10 years, inflation adjustments would increase the fee from $75 to $90. In the first year, it would raise a relatively modest amount ($15.7 million) If the fee were raised and indexed, it could raise significantly more.

Owners of heavy trucks do not pay a fixed registration fee. Rather, they are charged based on truck weight. Heavier vehicles do more damage to roads, and thus bear a larger share of resulting costs. For example, the fee for a truck weighing 4,500 pounds or less is $75; the fee for the heaviest trucks is $2,560. The commission recommended a 73% increase in registration fees for heavy trucks weighing more than 8,000 pounds, estimating this would generate about $850 million over 10 years.

Alternatively, Wisconsin could shift to a value-based fee, or a fee based on some combination of value and weight. The amount of revenue generated would depend on the program design.

Figure 11: Wisconsin Transportation Taxes/Fees Competitive
Estimated Gas Taxes and Vehicle Registration Fees for Two Vehicles, July 2012



Tying the registration fee to the value of the vehicle would recognize differing abilities to pay among drivers. Those with higher incomes tend to purchase more expensive vehicles and would pay higher registration fees. A system based on vehicle weight would shift more of the burden to those vehicles doing the most damage to the roads.

Vehicle Miles Traveled. Rather than raise current taxes and fees, the state could consider broadening and increasing the reliability of the funding base by using alternative revenues. One possibility is a tax or fee based on vehicle miles traveled (VMT). Several states, including Iowa, Oregon, Washington, and Minnesota, have considered a VMT, though not on a large scale.

A VMT approach could result in greater equity, since those with higher incomes tend to drive more than those with lower incomes. A 2009 federal study showed households with incomes under $10,000 made an average of 2,100 vehicle trips (commuting, shopping, etc.) per year. Middle-income households averaged over 3,000 trips, while households with incomes above $80,000 averaged more than 4,800 trips.

Heavy trucks are much harder on state and local roads than are passenger vehicles. Available technology makes a truck VMT feasible and a viable alternative that should be considered as a part of any funding package.

A 2011 study in New York showed that current GPS technology used in the trucking industry worked to collect sufficiently-detailed data on vehicle miles driven. The New York study also found that collection costs, including implementation costs, of a truck-based VMT were higher than for motor fuel taxes, but less than for registration fees. The authors did not study a car-based VMT.

Truckers who participated in the Empire State study were intrigued by the VMT and recognized its value, as long as the system remained "simple." They also supported VMT charges for cars.

A vehicle miles traveled (VMT) tax has been studied in several states. At a penny per mile, with some exemptions for low- and high-mileage drivers, the tax could generate about $2.3 billion over 10 years.

That said, surveys have shown that the public, concerned about privacy, is wary of technology that tracks travel. Many citizens do not want to give government the ability to track personal travel patterns. The Wisconsin Transportation Commission considered a "high-tech" VMT for Wisconsin. However, members believed that (1) there was too much uncertainty surrounding the technology of future systems: (2) a VMT lacked sufficient public support; and (3) there were significant implementation costs associated with the VMT approach.

However, a VMT can be implemented without using the latest technology, as the commission recognized. Instead of tracking mileage using GPS technology, it could be tracked manually using odometer readings. Because miles traveled generally rise, albeit slowly, over time, collections should grow.

The commission recommended a penny per mile VMT for passenger vehicles. The first 3,000 miles would be exempt from the tax, easing the burden on low-mileage drivers and crudely accounting for out-of-state driving by residents. Additionally, mileage over 20,000 would be exempt to ease the burden on high-mileage drivers. The tax would not apply to heavy trucks. This

"low-tech" VMT would generate about $2.3 billion over 10 years. For the "typical" person driving 12,000 miles per year, the annual cost would be about $90, assuming a 3,000-mile exemption.

Tolls. Although toll roads have historically been anathema to Wisconsinites, they have generated increasing interest as discussion of Wisconsin's funding dilemma has grown. In a recent survey from UW-Milwaukee, 31% of respondents identified toll roads as their most-preferred option for tackling the Transportation fund shortfall.

Tolling is not without problems. Up-front costs are significant. Federal law and regulations also remain an obstacle, though there has been recent talk of easing them. And Wisconsin's strong secondary road system could make avoidance of a toll way system easier.

Impact on Local Governments

State leaders have a relatively large menu of options for addressing Wisconsin's transportation finance problems. Of course, the alternative is to scale back spending to match revenues. But this approach would leave local governments asking how their transportation needs would be met.

Will Local Investments be Maintained? If one assumes that state lawmakers approve a future funding package that "fixes" the state's transportation funding shortfall, that would appear to be good news for local governments. They might expect state assistance for local transportation projects to grow with rising transportation revenues.

However, history renders that assumption questionable. Even with additional funding, transportation revenues can be somewhat volatile. During economic downturns, miles traveled tend to fall as some residents lose their jobs. Others travel less due to economic uncertainty. As a result, gas tax revenues lag. That would not change if a VMT were enacted.

The state could replace those "lost" revenues, as it did during the last recession, by borrowing to maintain existing spending trends. However, as noted, transportation debt service is already high; borrowing to replace "lost" tax revenues would further add to debt service costs, which would crowd out future transportation spending. In other words, Wisconsin would fund current needs at the expense of future ones.

State government has a relatively long history of fixing budget holes by reducing aids to local governments. The history of shared revenues and recent cuts to local school aids are examples.

Alternatively, the state could temporarily reduce transportation spending until the economy and tax collections recover. State government has a relatively long history of addressing its deficits by reducing aid to local governments. For example, in the spring of 2001, with the state facing a looming deficit, then-Governor Scott McCallum proposed significant cuts to shared revenues and elimination by 2004. Although this plan was not enacted, it is clear that shared revenue has been cut over the past 15 years to address persistent biennial deficits (see Figure 8 on page 16).

A recent history of school aids offer a similar story. After 1996, state law required the state to provide two-thirds of state-local school revenues. In the years following, school aids rose proportionately with costs. However, persistent state budget deficits led to repeal of the two-thirds requirement in 2004. Since then, school aids have risen 1% or less in three years (2004, 2008, and 2011) and were cut in both 2010 and 2012.

These recent examples should raise concerns about the reliability of local transportation aids, even if the state were to adopt transportation funding reforms. Recent experience shows that any slowdown or reduction in state transportation revenues puts local transportation assistance at risk.

Local transportation funding problems are not limited to state transportation aid. Municipalities and counties also fund streets, roads, and bridges with property taxes and shared revenues, which have in one way or another been limited.

If a state funding package were adopted, and if local transportation aids rose adequately, local transportation budgets would benefit. However, that benefit would be at least partially offset by stagnant or declining shared revenues and state-mandated limits on property tax growth. Relaxing local property tax limits over the next several years seems unlikely.

Is a Funding Package in the Cards? A second question for local officials is: Will a state transportation funding package be signed into law? Without one, they can expect continued pressure on local aids and further difficulty funding local transportation needs.

Recent history suggests not. Since 2010, the focus of both the governor and legislature has been on tax cutting. Over the past two biennia, lawmakers have cut state-local taxes by $1.2 billion. One might question whether there is the will to find new revenues to fully fund our transportation needs.

SECTION VII:
TRANSPORTATION FUNDING: A LOCAL APPROACH

If one concludes—as history and rhetoric both suggest—that local governments can no longer rely on state officials to maintain their past commitments to aiding local transportation needs, then the only real alternative to the status quo would be to acknowledge eroding state involvement in local transportation funding and give local governments more revenue options to meet their transportation needs. Alternatives are outlined below.

Revenue Sources

Wheel Tax. Local governments have a transportation revenue source available to them, the wheel tax. Section 341.35 of the Wisconsin State Statutes allows towns, villages, cities, and counties to impose a registration fee on cars and passenger trucks domiciled within the locality. The fee, often called a "wheel tax," is "piggy-backed" on the state vehicle registration fee. All revenues generated by a wheel tax must be used for transportation-related expenditures.

The list of governments that have imposed a wheel tax is short. Currently, the cities of Beloit, Janesville, and Milwaukee do so, as does St. Croix County. Until recently, Mayville also imposed a wheel tax. The city of Sheboygan ended its tax in 2006; Amery did so in 1991; and Marathon County ended its in 1988.

State law does not limit the fee amount, but $10 has been the most common. Milwaukee's is currently $20 and Amery's was $5. Collections are not insignificant. In 2012, wheel tax collections in Janesville, Beloit, and Mayville were between 14% and 19% of state general transportation aids; in Milwaukee, they were 27%.

Although the number of governments using the wheel tax is small, recent collections—from July 2012 through June 2013—in these places can be used to estimate possible revenues elsewhere. For places with a $10 fee, collections ranged from $7.31 per capita in Beloit to $9.77 per capita in Mayville. In other words, the number of registered vehicles per capita in these communities ranged from 0.73 to 0.98. On average, collections averaged $8.35 per capita in these communities.

Municipalities and counties currently have the ability to levy a wheel tax to help pay for transportation. Only three cities and one county impose one. If every municipality imposed a $10 wheel tax, about $44.2 million could be generated to fund local transportation.

Milwaukee has a $20 fee but collected only $10.51 per capita because the city registered only 0.53 vehicles per capita. Poverty there is high, and many families are either without a car or have only one. In higher-income areas, families have multiple vehicles per household.

Statewide, 2012 passenger vehicle registrations totalled 4.42 million, or 0.77 per capita. If every municipality imposed a $10 wheel tax, collections would total $44.2 million. Counties could also impose the fee and generate the same amount.

Comparing these figures to other local transportation finance figures is instructive. In 2012:

- Municipalities spent $1.3 billion on transportation, so a $10 wheel tax could cover about 3.4% of expenditures;
- Counties spent $532.8 million on transportation. A $10 wheel tax could cover 8.3% of expenditures;

- State highway aids to municipalities were $349.2 million; and
- State highway aids to counties totalled $117.2 million.

On average, an $80 wheel tax would generate about the same amount municipalities receive in state highway aids. For counties, a $27 tax would accomplish the same. While greater use of the wheel tax can help lessen local funding issues, a comprehensive approach to local transportation funding would require additional revenue.

Personal Property Tax. The state could also subject vehicles to the local property tax. In some ways, this is simply a twist on the local wheel tax; rather than a fixed fee, the amount paid would be base on both the vehicle's value and the local tax rate.

This is currently done in Mississippi where vehicles are registered locally. Owners pay a fixed state fee in addition to a local fee (property tax) that depends on the vehicle's value, age, and local property tax rate.

One advantage of a property tax approach is that it is income tax deductible. A drawback is that non-profits and governments do not pay property taxes. That issue could be resolved by keeping the fee value-based, but have a maximum rate set by the state.

In Mississippi, a new vehicle's value is the manufacturer's suggested retail price (MSRP) at the time of purchase. The value depreciates over 10 years but cannot fall below a specified minimum value. The original value and vehicle identification number (VIN) are entered into a database that is used by local governments to annually determine the vehicle's value.

In 2014, Wisconsin's average city tax rate (municipal purpose only) was $8.58 per $1,000 of value. If that rate were applied to a new $30,000 vehicle, the local registration fee would be $257. The average village rate was $5.80 resulting in a fee of $174 on a $30,000 vehicle. In towns, the average fee would be $66. By comparison, it would be $428 in the "typical" Mississippi county.

Currently six state authorize local gas taxes; Wisconsin is not among them. If the state were to allow local governments to impose such a tax, each penny would generate about $32 million.

However, mimicking the Mississippi system to fund transportation here could be problematic. In 2013-14, seven Wisconsin towns had negative municipal rates; i.e., they generated enough revenue from other sources that they were able to subsidize resident's school and county property taxes. Another 17 had no municipal levy, and 103 municipalities had property tax rates under $1 per $1,000 of value. Sixty-five municipalities had tax rates over $10. Thus, some municipalities would not be able to generate revenues using this method, while others would generate significant transportation dollars.

Instead, a "local transportation tax rate" could be set legislatively, allowing all municipalities and/or counties to generate transportation revenues. How much depends on the system's design.

For example, suppose new cars are taxed on MSRP. Vehicles are depreciated over 10 years, but cannot fall below $2,000. Assuming a tax of $5 per $1,000 (0.5% of value), about $220 million would be generated. The purchaser of a new car listed at $30,000 would pay $150; owners of vehicles older than 10 years would pay $10.

At $15 per $1,000, that same new car buyer would pay $450 and the owner of the older vehicle would pay $30. However, the higher fee could generate almost $660 million for local transportation. For perspective, 2012 municipal transportation expenditures were $1.3 billion. Of that, $463 million was funded with a combination of state aid, federal aid, and user fees and charges. The remaining $840 million was funded with property taxes or other general revenues

Local Gas Tax. A third local funding option would be an add-on local gas tax. Currently, six states authorize local gas taxes: Alabama, Florida, Hawaii, Illinois, Nevada, and Oregon. Wisconsin allows very few local option taxes, and a local gas tax is not among them.

In 2012, about 3.2 billion gallons of gas were sold in Wisconsin. At 30.9¢ per gallon, the state gas tax generated just under $1 billion. Each gas tax penny generates about $32 million. In other words, if all municipalities imposed an additional 1¢ gas tax, they would collect about as much revenue as a $7 vehicle registration fee.

However, as with the state gas tax, local collections would not grow over time as cars become more fuel efficient. For a local gas tax to be a viable long-term source of transportation revenues, it would likely have to be indexed for inflation.

Local Sales Tax. Although the tax is not related to transportation, another option would be a local sales tax. This is not unprecedented in Wisconsin. The 2009-11 state budget authorized creation of regional transit authorities (RTA) funded with a sales tax of not more than 0.5%. The 2011-13 state budget dissolved all Wisconsin RTAs. If all municipalities enacted the tax, it would generate about $450 million annually.

This would have the benefit of familiarity and few if any startup costs. However, the sales tax is broad and not related to transportation. That said, the property tax currently pays for more than half of all local transportation spending.

Beyond localism: Mutually beneficial cooperation

While each of the revenue sources discussed here—both existing and hypothetical—can help solve the transportation funding dilemmas that local governments increasingly face, they are not a panacea. First, as clearly demonstrated, continuation of the last decade's band-aid approaches to state transportation finance has made funding prospects for municipalities and counties more uncertain and more unreliable.

Second, as long as the "users should pay" principle that served transportation so well for so long is increasingly ignored in favor of borrowing or reliance on general revenues, such as state income and sales taxes, Wisconsin's transportation infrastructure will continue to be at risk.

That is even more true for local governments than the state. With strict, state-imposed limits on property taxes, local officials must increasingly sacrifice spending on street maintenance, plowing, lighting, and construction to fund other priorities. Recent evidence is compelling. During 2008-12, in the state's 244 most populous cities and villages, spending on police and fire services rose from $356 to $375 per person. Spending on street maintenance declined from $121 to $107 per person.

Has the time come to consider seriously and responsibly alternate approaches to transportation finance at the local level that would move beyond existing municipal boundaries? In addition to those above, several additional reasons are compelling. First, it goes with-

out saying that municipal and county boundaries are artificial, the product of history, surveyors, turf battles, and whim.

Second, as with many private and public services, scale economies exist in local transportation spending. Consider that, in 2012, cities and villages with 3,000 to 4,000 people spent almost $130 per person on streets, while those with populations over 30,000 (other than Madison and Milwaukee, excluded for their uniqueness) spent only $97 per capita, a difference of almost 25%, even though one would expect more traffic volume in a larger community.

Third, as mentioned, research shows that upgraded transportation infrastructure can have positive economic impacts locally. However, whether these benefits are positive or negative, they do not respect civil boundaries; they "spill over" to nearby communities. A regional approach to planning, funding, and providing transportation might minimize some of these negative externalities, while maximizing the positive.

Finally, regional approaches, by pooling tax base and revenue sources, would likely lessen property tax rate disparities that now exist.

With an eye on avoiding forced creation of state-imposed geography or institutions, what is outlined below is a future approach to delivering local transportation services that is cooperative and flexible, yet strategic and potentially sustainable: Local transportation cooperatives.

A broad-brush, conceptual look at how such a cooperative might be organized, governed, and funded follows. It is worth noting that precedents, such as CESA buying/service delivery regimes that facilitate cooperation among school districts, already exist.

1. A regional transportation cooperative would consist of multiple municipalities, all municipalities within a county, or a group of counties. A minimum service area in terms of population or area would be specified by law.

2. A cooperative could be formed if local government bodies or the electorate in each community (or county) approved a contract developed jointly by governmental entities seeking to participate. The contract would cover organization, governance, funding, budgeting, and service provision. All identified (and ideally all) transportation funding and service delivery would be handled by the cooperative. Transportation would be a shared, rather than a unilaterally delivered, service.

3. The cooperative would be governed by a policy-making board consisting of elected officials selected by each participating municipality and/or county. Representation would be based on population. The board would be authorized to engage an executive director, who in turn would have day-to-day management authority. The board could approve use of one or more special revenue sources designated by state law. Should any local property tax dollars continue to be used, they would be budgeted by the cooperative, levied and collected by the participating local unit, and forwarded to the cooperative, as is now done with counties and school districts.

4. Ideally, new transportation revenue sources would be sufficient to completely replace property taxes used for transportation. The reduction in general property taxes would be deducted from state-imposed levy limits. Thus, the change would be revenue neutral initially.

To illustrate, one possible revenue package might allow use of a local sales tax up to 0.5%, plus a vehicle property tax equal to $20

per $1,000 of value. While this particular package would generate sufficient dollars statewide to replace all property taxes used for transportation ($1.3 billion to replace $840 million), it would always be sufficient in each individual cooperative region.

Consider, for example, a hypothetical cooperative of all municipalities in St. Croix County. In 2012, transportation spending totalled $40 million, state and federal aids and various transportation user fees and charges totalled $17.5 million, and property taxes used to fund transportation totalled $22.5 million. A levy of $20 per $1,000 on the value of all passenger vehicles would have generated an estimated $14.5 million and a 0.5% regional sales tax another $5.5 million. Thus, these two revenue sources would have yielded about $20 million in 2012, or $2.5 million less than the amount of property taxes used by those municipalities for transportation.

5. Local governments would be encouraged to act regionally through incentives. For example, if state transportation aids remained at current levels, lack of aid growth would encourage local governments to form cooperatives in order to access the new revenue sources determined by statute.

Another example of an incentive might allow local governments to "capture" a percentage of otherwise reduced property taxes. To illustrate, if new transportation revenue replaced $1 million of property taxes, only $900,000 might be subtracted from the local levy limits rather than the full $1 million. There could also be a state bonus incentive subtracted from the state aid appropriation that would be paid to cooperatives to encourage municipalities and/or counties to cooperate.

6. *Mechanics.* With specific regard to a local vehicle property tax if implemented, DOT would annually provide local governments with a database of all vehicles in their communities with their associated assessed values as depreciated by DOT. The vehicle tax would be placed on the property tax bill. Renters would get a property tax bill, but for their vehicle only.

SECTION VIII: SUMMARY

More than nearly any other state, Wisconsin's economy depends on quality transportation infrastructure. Three transportation-dependent industries—manufacturing, agriculture, and trucking—comprise a greater share of employment here than in any other state save Indiana.

Moreover, many parts of the state rely to a large degree on tourism for economic development. State and local roads and highways provide easy access to these areas. Thus, our roads, highways, and other transportation infrastructure cannot be ignored if Wisconsin's economy is to grow over the next decade or more.

However, Wisconsin has a transportation funding problem, something that state officials have known of for years. The Badger State relies disproportionately on the gas tax—a revenue source with little capacity to grow—to fund its transportation needs. Once adjusted annually for inflation, the gas tax rate has been unchanged since 2006. With miles travelled changing little and improved vehicle fuel economy, collections have stagnated over the past six years, and growth prospects are not encouraging. Without a change, the state would not be able to maintain its current transportation investment. In fact, with asphalt prices rising significantly each year, disinvestment would occur over the next ten years.

Local governments are also in a bind because they rely on state aids to help pay for local roads. However, over the past 15 years, a shift in state priorities away from local assistance adversely affected local transportation budgets. During 2000-13, state transportation assistance to local governments rose an average of only 1.4% per year.

Compounding the problem has been a significant decline in state shared revenues—state aid that local governments can use for any purpose. State limits on property tax levies have further squeezed local budgets. Local governments continue to fund police and fire protection, but they have fewer dollars to allocate to other areas, including transportation. Where transportation spending averaged 24% of municipal spending in 2000, it averaged only 19% in 2012.

Yet, local governments currently have few available tools with which to address transportation funding. Their only option is a local wheel tax.

Even if the state were to "fix" the transportation fund with higher gas taxes, VMT taxes, or value-based registration fees, local governments would remain subject to restrictive property tax limits and stagnant or declining shared revenues.

Roads and highways do not stop at city or county lines. Rather, transportation infrastructure should be viewed at a regional level. Allowing local governments to create regional transportation cooperatives with access to additional revenue sources can go a long way toward improving local transportation infrastructure.

The cooperatives would be formed only if approved via local referendum. They would be allowed to tap into alternative transportation revenue sources as authorized by state law. Possible sources include a local gas tax, an expanded local vehicle registration fee, a local personal property tax on vehicles, or a local sales tax. This could remove most or all property tax funding of local transportation and provide a growing revenue stream to deal with rising costs. □

References

Cambridge Systematics, Inc., February 2003, "Transportation Improvements Grow Wisconsin's Economy: The Economic Benefits for Transportation Investments."

Chandra, Amitabh and Thompson, Eric, 2000, "Does Public Infrastructure Affect Economic Activity? Evidence From the Rural Interstate Highway System," Regional Science and Urban Economics, Volume 30 No. 4.

Delcan Corporation, Calmar Telematics, and Greater Buffalo Niagara Regional Transportation Council, April 2011, "A Practical Approach to Truck VMT Fees."

Economic Development Research Group, 2005, "The Cost of Congestion to the Economy of the Portland Region."

Holl, A., 2004, "Manufacturing Location and Impacts of Road Transport Infrastructure: Empirical Evidence from Spain," Regional Science and Urban Economics, Volume 34 No. 3

Munnell, Alicia H. and Cook, Leah M., 1990, "How Does Public Infrastructure Affect Regional Economic Performance?," New England Economic Review, Federal Reserve Bank of Boston

National Conference of State Legislatures, 2012, "On The Move: State Strategies for 21st Century Transportation Solutions."

Schrank, David and Lomax, Tim, 2002, "The 2001 Urban Mobility Report," Texas A&M Transportation Institute.

University of California Agricultural Center, 2009, "Agriculture Infrastructure."

Wisconsin Department of Transportation, 2004, "Economic and Land Use Impacts of Wisconsin State Trunk Highway 29."

Wisconsin Department of Transportation, October 2012 and April 2014, "MAPSS Performance Improvement."

Wisconsin Transportation Finance and Policy Commission, 2013, "Keep Wisconsin Moving."

Data for this report are from NADA, Texas A&M Transportation Institute, Tripnet.org, U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics , U.S. Department of Transportaion, Wisconsin Departments of Commerce, Revenue, Tourism, and Transportation, and Wisconsin Legislative Fiscal Bureau.

Wisconsin Taxpayers Alliance

Local Government Institute

The Local Government Institute of Wisconsin (LGI) was formed by the Wisconsin Counties Association, the League of Wisconsin Municipalities, the Wisconsin Towns Association and the Wisconsin Alliance of Cities (now the Urban Alliance) to promote greater cooperation and collaboration between units of government in the delivery of services. www.localgovinstitute.org

The Wisconsin Taxpayers Alliance (WISTAX) is a nonprofit, nonpartisan organization dedicated to citizen education. Founded in 1932, WISTAX is the state's oldest and most respected public policy research organization. www.wistax.org