Legislative Fiscal Bureau

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

May 29, 2001 Joint Committee on Finance Paper #897

Revenue Bonding Increases -- Bonding Policy (DOT -- Transportation Finance)

[LFB 2001-03 Budget Summary: Page 650, #3]

CURRENT LAW

Transportation revenue bonds have been used as a funding source for transportation administrative facilities and major highway development projects since 1984. Prior to that time, general obligation bonds were used for these purposes, although all but $5.8 million of these bonds have been retired. Of the total amount of revenue bond proceeds appropriated in 2000-01, 97.7% was appropriated for the major highway development program and the remaining 2.3% was appropriated for administrative facilities. As of the end of 2000, slightly over $1.0 billion in revenue bonds were outstanding and payments on that debt, totaling $1.6 billion, were scheduled through 2022. Debt service on revenue bonds is paid with revenue generated from vehicle registration fees, which is deposited in a trust account separate from the state treasury. The trustee deducts an amount for the debt service payments and the administrative expenses associated with the issuance and payment of the bonds and remits the remaining registration fee revenue to the state for deposit in the transportation fund. Transportation fund-supported general obligation bonds are currently issued for rail improvements under the freight rail preservation program and for harbor improvements under the harbor assistance program. Debt service on these and previously issued general obligation bonds is paid from two sum sufficient, SEG appropriations.

GOVERNOR

Specify that the amount of revenue bond proceeds used in the major highway development program may not exceed 53% of the total funds expended in each fiscal year, beginning in 2002-03.

DISCUSSION POINTS

1. Although the bill restricts the percentage of the total expenditures in the major highway development program that may be funded with revenue bond proceeds to 53%, beginning in 2002-03, the bill would provide 53.9% of the program's funding with revenue bond proceeds in that year. DOA indicates that the Governor intended to provide $125,406,800 in revenue bond proceeds for the program in 2002-03, instead of the amount that would actually be provided, which is $129,935,900. If the lower amount is used, then bonding proceeds would provide 53% of the program's funding in 2002-03. However, at the Committee's May 23 executive session, the Committee decided to move bonding of $2,264,300 in 2001-03 and $4,732,300 in 2002-03 to the major highway development program from the Marquette Interchange appropriations and make the reverse transfer of SEG funds. Based on the Governor's intended funding level, this would fund 55% of the program in both years with revenue bonds. The proposal limit in the bill could be set at 55% to reflect this decision.

2. Prior to 1996, Wisconsin's disclosure report on state debt included a general policy statement indicating that revenue bond proceeds would be used for 55% of the funding for the major highway development program. This statement was discontinued because the bonding percentage was generally above 60% during the 1990s. A large increase in federal highway aid beginning in 1997-98 permitted an increase in the size of the program that reduced the percentage funded with bonding without actually reducing the amount of bonding used. The Legislature provided 54.5% of the program's funding with bond proceeds in both years of the 1999-01 biennium.

3. DOA indicates that the intent of placing a limit on the use of revenue bond proceeds in the major highway development program is to ensure that bonding is not used in excess of what the transportation fund can support over the long run. However, a future Legislature could eliminate the bill's proposed limit on expenditures.

4. Although a future Legislature could modify or eliminate any limits placed on the use of bonding, creating such a statutory limit may be effective in establishing a long-term policy if future Legislatures are hesitant to change the limit. The proposed limit may be more likely to be retained if it is modified to be easier to administer. For instance, the limit could apply to encumbrances in the major highway development program instead of expenditures. Funds are encumbered in the major highway development program when the Governor signs a construction contract. Expenditures in the program, however, sometimes occur in a different year than when the funds were encumbered. For this reason, the amount of expenditures in a given year may be difficult to predict or control. DOT can more easily control the amount of contracts that are bid in a given year.

5. Another change that could be made to the proposed bonding limit would be to have the limit apply over a three-year period instead of to only one year. Since DOT changes the mix of funding sources from year to year in the major highway development program to manage such things as the timing of bond issuance and the receipt of federal aid, applying the limit to a three-year period would allow DOT to retain much of this flexibility, but still accomplish the goal of limiting the use of bonds.

ALTERNATIVES TO BILL

1. Adopt the Governor's recommendation to specify that the amount of revenue bond proceeds used in the major highway development program may not exceed 53% of the total funds expended in each fiscal year, beginning in 2002-03.

2. Modify the Governor's recommendation to limit the use of bonding in the major highway development program, but set the limit at 55% and specify that the limit would apply to encumbrances over any consecutive three years, beginning with the three-year period between 2002-03 and 2004-05.

3. Maintain current law.

Prepared by: Jon Dyck