



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #736

Federal Highway Formula Aid (DOT -- Transportation Finance)

[LFB 2003-05 Budget Summary: Page 409, #2]

CURRENT LAW

The federal government provides highway aid to the states in the form of authorization to obligate funds from the federal highway trust fund. The authorization, which is distributed to the states by formula, is approved on a multi-year basis, but Congress annually limits how much of that authorization can be obligated. The limit that is placed on obligation authority determines the spendable amount of federal highway formula aid.

The state budgets for federal highway formula aid by estimating the total amount of obligation authority the state will receive during the two federal fiscal years that correspond to the two state fiscal years of the biennium. This funding is apportioned among various FED appropriations in DOT. The amounts in the Chapter 20 appropriations schedule reflect the intent of the Legislature on how these funds should be spent, but DOT may spend more or less than the appropriated amount if the total amount of federal highway aid is more or less than the amount estimated. If the difference between the amount estimated and the amount received exceeds 5%, then DOT must submit a plan to the Joint Committee on Finance for adjusting the Department's appropriations to reflect the revised federal aid amount. If the amount of federal aid received falls below the estimated amount by more than 5%, the Department may include in its plan a request to use transportation fund-supported, general obligation bonds to make up the difference between the estimate and the amount received. The Legislature authorized \$140 million in bonding authorization for this purpose in 2001 Act 109, none of which has been used. The Committee may approve, or modify and approve, the Department's plan to reallocate federal funds or the Department's request to use bonding to replace "lost" federal funds.

GOVERNOR

Reestimate federal highway formula aid at \$501,800,100 in 2003-04 and \$527,100,100 in 2004-05. These amounts represent decreases of \$65,199,900 in 2003-04 and \$39,899,900 in 2004-05 from the total amount of formula aid reflected in DOT's 2002-03 federal appropriations by the 2001-03 biennial budget act. The following table shows, by appropriation, how the bill would allocate federal aid during 2003-05. The first column shows the base level for each appropriation, doubled to provide a biennial comparison. The second and third columns show the funding recommended by the Governor and the change to the base doubled.

<u>Appropriation</u>	<u>Appropriation Base Doubled</u>	<u>2003-05 Governor</u>	<u>Change to Base Doubled</u>
Local Transportation Facility Improvement	\$151,439,400	\$137,403,900	-\$14,035,500
Local Bridge Improvement	52,576,400	47,703,600	-4,872,800
Congestion Mitigation/Air Quality Improvement	24,997,000	22,680,300	-2,316,700
Transportation Enhancements Grants	13,460,400	12,212,900	-1,247,500
Surface Transportation Grants	5,440,000	4,935,800	-504,200
Railroad Crossing Improvements	7,098,600	6,440,800	-657,800
Major Highway Development	115,897,000	59,931,400	-55,965,600
State Highway Rehabilitation	608,090,600	544,578,300	-63,512,300
Southeast Wisconsin Freeway Rehabilitation	110,135,600	150,559,400	40,423,800
Highway Maintenance and Traffic Operations	2,388,000	2,118,700	-269,300
Highway Administration and Planning	8,110,000	7,195,400	-914,600
Departmental Management and Operations	20,496,200	18,184,800	-2,311,400
Rail Passenger Service	6,361,200	8,633,200	2,272,000
Motor Vehicle Emission Inspection and Maintenance	<u>7,509,600</u>	<u>6,321,700</u>	<u>-1,187,900</u>
TOTAL	\$1,134,000,000	\$1,028,900,200	-\$105,099,800

DISCUSSION POINTS

1. Under the bill's estimates, federal highway aid would decrease, relative to the base, by 11.5% in 2003-04 and 7.0% in 2004-05. The bill would reduce the appropriations for the local transportation programs (the first six appropriations shown in the above table) by these percentages, but would reduce the other federal funds appropriations by varying proportions. The appropriations for departmental management and operations, highway administration and planning, and highway maintenance and traffic operations would each be decreased, relative to the base, by 14.9% in 2003-04 and 7.6% in 2004-05. The appropriations for state highway rehabilitation and major highway development would be reduced as part of a proposal to decrease overall funding for these programs. Some of the reductions in FED and SEG funds in these programs would be offset by increases in the use of transportation revenue bonds for these programs. The federal appropriation for southeast

Wisconsin freeway rehabilitation would be increased to provide funding for the Marquette Interchange reconstruction project, but these increases are offset by SEG decreases for the project.

2. The estimates of federal aid that are included in the bill, which correspond to the state's aid for federal fiscal year (FFY) 2004 and FFY 2005, were prepared at a time when the state's aid for FFY 2003 remained uncertain. At that time, it was thought that the state would receive about \$480 million in FFY 2003, which would have been a reduction of \$87 million from the 2002-03 total appropriation level of \$567 million. The bill's estimates for FFY 2004 and FFY 2005 were based, in part, on the expectation that federal aid would increase slightly from the \$480 million level. Since that time, however, the FFY 2003 appropriations act has been passed, providing a level of federal highway formula aid of \$535.9 million (not including \$25.5 million of earmarks for specific projects, bringing the total to \$561.4 million).

3. Since the actual FFY 2003 federal aid amount was higher than previous expectations, the Department of Transportation conducted a reestimate of federal highway aid for FFY 2004 and FFY 2005 in mid-April. In doing this reestimate, the Department relied upon the FFY 2004 Congressional budget resolution, which outlines federal spending by category for FFY 2004, as well as for several succeeding years. Although a budget resolution does not guarantee that the spending levels that it contains will be enacted, it is considered a general outline of Congressional intent. The overall highway spending levels contained in the resolution, assuming that Wisconsin would receive a percentage approximately equal to the state's projected contribution to the federal highway trust fund, would result in federal highway aid for the state of \$568,680,000 in FFY 2004 and \$579,936,000 in FFY 2005. These amounts would result in increases from the estimated levels contained in the budget of \$66,879,900 in 2003-04 and \$52,835,900 in 2004-05.

4. Although the budget resolution can be used to estimate the state's federal highway aid, there are reasons that the actual amounts could be either higher or lower than these amounts. These aid estimates, therefore, remain somewhat uncertain.

5. Federal transportation aid is provided through multi-year authorization acts. The current act is called the Transportation Equity Act for the 21st Century, also known as TEA-21. Since TEA-21 expires at the end of FFY 2003, a new act must be passed in order to continue the federal surface transportation program for FFY 2004 and subsequent years. If no act is passed, it may be likely that Congress would pass a continuing resolution or an interim act to continue funding transportation. In this event, it is possible that funding for highway aid in FFY 2004 would be continued at the FFY 2003 level, which, as noted above, provided Wisconsin with \$535.9 million in formula-based aid, which is \$32.8 million below the Department's revised estimates. DOT noted this possibility in preparing the new estimates.

6. While the possibility exists that the passage of a new authorization act for surface transportation may be delayed, which could have the effect of providing the state a level of federal aid below the Department's estimates, there appears to be support among some members of Congress to increase the overall level of transportation spending. Consequently, once an authorization act is passed, it could provide a higher level of aid. There have been discussions, for

instance, of increasing federal highway trust fund revenues through various means, including applying an indexing factor on the federal tax on motor fuels, similar to the state's indexing factor. In this event, the increased level of highway trust fund receipts may allow for increases in highway aid to be provided, above the levels contained in the budget resolution.

7. If the estimates of federal highway aid contained in the budget bill are too high or too low, DOT would adjust encumbrances accordingly and would choose which appropriations to modify. If the difference is greater than 5%, however, DOT would have to submit a plan to the Joint Committee on Finance for making adjustments. In the event that the state's actual aid falls more than 5% below the estimates contained in the bill, the Department would have the option of requesting the Committee's approval to issue bonding to make up the difference between the estimated amount and the amount received. The Legislature authorized \$140 million in bonds for this purpose in 2001 Act 109.

8. It should be noted that states typically receive an amount of federal aid in the form of Congressional earmarks for specific projects. For instance, the FFY 2003 federal appropriations act included a \$6.0 million grant for the Marquette Interchange reconstruction project. The estimates prepared by DOT do not include an estimate of earmarked amounts and these amounts are not typically reflected in the Chapter 20 appropriation schedule. However, since the \$6.0 million amount is known, the 2003-04 appropriation for southeast Wisconsin freeway rehabilitation could be adjusted to reflect this amount.

SUMMARY

Due to the expiration of TEA-21 at the end of FFY 2003, the level of federal highway aid that the state can expect in FFY 2004 and FFY 2005 remains uncertain. The bill reflects estimates of \$501,800,100 in 2003-04 and \$527,100,100 in 2004-05, corresponding to aid received in FFY 2004 and FFY 2005, respectively. Reestimates of this amount, based on the FFY 2004 Congressional budget resolution, would increase these amounts to \$568,680,000 in FFY 2004 and \$579,936,000 in FFY 2005, increases, relative to the bill, of \$66,879,900 in 2003 and \$52,835,900, respectively. Although the budget resolution is considered only a blueprint for later budgetary decisions, it is currently the best signal of Congressional intent. The actual amounts that the state will receive will not be known until after Congress passes a reauthorization act for surface transportation and passes the FFY 2004 and FFY 2005 transportation appropriation bills. In addition to these formula aid amounts, the state did receive a \$6,000,000 earmark for the Marquette Interchange project in the FFY 2003 appropriations bill.

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