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May 15, 2003 Joint Committee on Finance Paper #738

Revenue Bonding Increases and Transportation Fund Debt Service (DOT -- Transportation Finance)

[LFB 2003-05 Budget Summary: Page 412, #6 and #7]

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 most of these bonds have been retired. In 2002-03, $130,139,100 was appropriated for the major highway development program and $6,000,000 was appropriated for administrative facilities. Currently, about $1.2 billion in revenue bonds are outstanding and payments on that debt, totaling $1.9 billion, are scheduled through 2023.

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

Revenue Bonding Increases. Provide increased revenue bonding authority of $1,163,335,500 for state highway rehabilitation, the Marquette Interchange reconstruction project, major highway development, and administrative facilities.

Transportation Fund Debt Service Reestimate. Decrease funding by $876,300 SEG in 2003-04 and $843,600 SEG in 2004-05 to reflect a reestimate of the level of funding needed for payment of principal and interest on existing, transportation-related, general obligation bonds at $4,308,600 in 2003-04 and $4,341,300 in 2004-05.

In addition, estimate that gross vehicle registration revenue will be reduced by $135,113,200 in 2003-04 and $174,029,500 in 2004-05 in order to repay principal and interest on revenue bonds and associated short-term debt. These amounts represent increases of $31,213,200 in 2003-04 and $70,129,500 in 2004-05 from the estimated revenue reduction in the base year for revenue bond debt service.

DISCUSSION POINTS

1. The decision on whether or not to use additional bonding in the major highway development and state highway rehabilitation programs and for the Marquette Interchange reconstruction project has an impact on the amount of debt service that will be paid during the 2003-05 biennium as well as in future biennia. This paper provides information on the proposed level of bonding in the bill and the associated debt service. In addition, the debt service associated with alternative levels of bonding is shown to assist the Committee in making decisions on the funding for the highway programs.

2. Under the bill, the state highway rehabilitation program and the Marquette Interchange project, which are currently funded with SEG and FED funds, would also be funded with revenue bonding proceeds. The increase in bonding authority, therefore, reflects the creation of bonding appropriations for these two programs, an increase in bonding for major highway development, and a continuation of the base level of bonding for administrative facilities. The following table shows the bonding appropriations for the four programs under the bill, in addition to the bonding appropriation base for each program.

Program	Appropriation Base	2003-04	2004-05	Biennial Total
Major Highway Development	$130,139,100	$173,295,400	$158,221,200	$331,516,600
Administrative Facilities	6,000,000	6,000,000	6,000,000	12,000,000
State Highway Rehabilitation	0	147,708,000	128,135,700	275,843,700
Marquette Interchange	0	0	85,500,000	85,500,000
Total	$136,139,100	$327,003,400	$377,856,900	$704,860,300

3. As shown in the previous table, the total amount of proposed bonding for the biennium would be $704,860,300. The total amount of additional bonding authorization provided by the bill, however, is $1,163,335,500. The bill would provide more bonding authorization than the amount of bonds proceeds provided in the 2003-05 appropriations because the Department

typically requests enough bonding authority for anticipated bond issuance in the biennium, plus additional amounts to partially fund anticipated bonding usage in the following biennium. The following table shows the amount of bonding authorization needed for each program in the 2003-05 biennium, plus additional amounts that would be provided for the 2005-07 biennium. For the purposes of this calculation, the Department combines anticipated bonding for administrative facilities with the anticipated bonding for the major highway development program. Consequently, the table includes bonding for administrative facilities under the heading for major highway development.

Program	2003-04	2004-05	2005-06	2006-07	Total
Major Highway Development*	$167,700,000	$194,000,000	$140,300,000	$9,300,000	$511,300,000
State Highway Rehabilitation	148,820,000	129,100,000	0	0	277,920,000
Marquette Interchange	0	86,140,000	397,680,000	0	483,820,000
Total	$316,520,000	$409,240,000	$537,980,000	$9,300,000	$1,273,040,000

*Includes anticipated bonding for administrative facilities.

4. There are a few things to note with regards to this table:

- First, the total amount of anticipated bonding used for the two biennia is $1,273,040,000, although the amount provided is $1,163,335,500. This is because there is anticipated to be $109,704,500 in unused, existing bonding authority remaining at the end of the 2001-03 biennium, reducing the amount of new bonding authorization needed.

- Second, the anticipated use of bonding in the major highway development program (including bonding for administrative facilities) does not match the amounts in the appropriations for these programs. This is because there is typically a delay for these projects between the time that the funds are obligated to the time that bonds must be issued to make payments on the contract work.

- Third, the bonding authorization amounts exceed the proposed use of bond proceeds in the programs (although this is offset in 2003-04 in the major highway development program by the timing issues noted above). The Department indicates that the additional amount was provided in order to cover the administrative costs of bond issuance. However, the statutes providing for bond issuance allow the Building Commission to issue an amount of bonds for issuance costs in addition to the amounts provided for programs. Consequently, it is unnecessary to provide an increment for issuance costs above what is anticipated to be used on the programs. The total amount of bond authorization provided, therefore, could be reduced by $8,660,000.

- Fourth, although the bonding provided by the bill would provide some bonding authorization for the 2005-07 biennium, additional bonding would have to be provided in the 2005-07 budget to continue funding the programs at the base level. The exception to this is the Marquette

Interchange, in which case enough bonding was included, when combined with base federal funds, to complete the project's financing in the 2005-07 biennium. The Department indicates that this was done in order to ensure that the project could be completed even if no additional FED or SEG funds are provided for the project in the 2005-07 biennium. This amount could be reduced by the 2005-07 budget if additional, non-bonding funds are provided.

5. The level of debt service associated with the amount of transportation revenue bonding can be analyzed from three perspectives. First, since the issuance of revenue bonds requires that the level of anticipated annual revenues that are pledged for the payment of debt service on those bonds exceeds the annual debt service by a given factor (the "coverage ratio"), the estimated debt service associated with the proposed use of bonding can be examined in relation to the level of pledged revenue. Second, independent of coverage issues, the amount of debt service relative to the total amount of transportation fund revenue may be used as an indication of the level of total indebtedness. This may be examined in terms of the percentage of total, gross transportation fund revenues that is required to pay debt service, including how this percentage is projected to change over time. Finally, the anticipated growth in the amount of debt service associated with a particular level of bonding from one biennium to the next can be examined in relation to the expected growth in total transportation fund revenues. This analysis provides an indication of the percentage growth in new transportation fund revenue, net of new debt service, which is the amount by which funding for transportation programs may be increased.

6. Regardless of the level of bonding approved for the 2003-05 biennium, debt service is projected to increase slightly over the next few years because of bonds that have already been issued. For illustrative purposes, the following table shows the amount of debt service that would be paid through 2011-12 if the 2003-05 budget eliminated all bonding in the major highway development and administrative facilities programs (a reduction of $136,139,100 annually). After 2011-12, the amount of debt service would continue to decrease over another 11 years until all outstanding bonds would be retired.

Debt Service on Outstanding Bonds

Fiscal Year	Debt Service
2003-04	$115,773,424
2004-05	121,528,560
2005-06	121,496,163
2006-07	121,369,388
2007-08	116,273,520
2008-09	111,490,805
2009-10	99,928,270
2010-11	100,205,996
2011-12	98,152,734

7. The Department has calculated the amount of debt service that would be paid over the next decade, based upon the actual amount of bonding in the bill and the following assumptions used to project the amount of bonding in the future:

- The amount of bonding in the major highway development program would increase by 3% annually, beginning in 2005-06, from the 2004-05 amount in the bill of $158,221,200.

- Following the provision of bonding for the Marquette Interchange in 2005-06 (included in the authorization amount in the bill), additional bonding would be provided for other southeast Wisconsin freeway reconstruction projects, beginning in 2006-07. For the purpose of calculating this amount, DOT assumed that bonding would be used for 55% of the annual cost of reconstructing freeways according to the proposed Southeastern Wisconsin Regional Planning Commission freeway plan. However, the amounts estimated by the plan that would be required to add additional lanes to certain freeway segments were excluded, on the grounds that a consensus has not been reached on which of the freeways should be expanded. The annual amounts were calculated by averaging the remaining total costs of the plan without additional lanes over the years remaining in the plan's time horizon (increased for inflation).

- No additional bonding would be provided for the state highway rehabilitation program after the 2003-05 biennium. The bonds used for this program during the 2003-05 biennium would be 10-year bonds.

- Bonding for administrative facilities would stay at the base level of $6,000,000 throughout the period.

8. The following table shows (in millions) the amount of bonding under the Department's bonding scenario and the associated debt service through 2011-12. The actual amount of debt service in 2001-02 and the estimated amount for 2002-03 are also shown for comparison. For the purposes of the analysis later in this paper, this scenario will be designated as Scenario A.

	Bonding Amounts				
Fiscal Year	Major Highway Development	State Highway Rehabilitation	Southeast Freeways	Administrative Facilities	Total Debt Service
2001-02	$127.0	$0.0	$0.0	$6.0	$87.9
2002-03	130.1	0.0	0.0	6.0	103.9
2003-04	173.3	147.7	0.0	6.0	135.1
2004-05	158.2	128.1	85.5	6.0	174.0
2005-06	163.0	0.0	394.7	6.0	225.5
2006-07	167.9	0.0	115.8	6.0	258.7
2007-08	172.9	0.0	119.3	6.0	278.8
2008-09	178.1	0.0	122.8	6.0	299.5
2009-10	183.4	0.0	126.5	6.0	314.3
2010-11	188.9	0.0	130.3	6.0	341.5
2011-12	194.6	0.0	134.2	6.0	367.2

9. The previous scenario is based, in part, on assumptions of how subsequent Legislatures will choose to fund transportation projects. A case could be made, however, that even if the current Legislature approves the bonding in the Governor's bill, the next Legislature could choose to reduce the use of bonding on highway projects. The following table shows (in millions) an alternate scenario that modifies the previous one in two ways. First, instead of inflating the use of revenue bonding in the major highway development program by 3% annually from the 2004-05 base of $158.2 million, it would inflate the use of bonding in the program by 3% annually from a 2004-05 base of $130.1 million, which is equal to the 2002-03 bonding base for the program. In other words, it is assumed that the increase in bonding provided by the bill for the program in the 2003-05 biennium is to partially offset reductions in SEG and FED funds for the program on a one-time basis. Beginning in the 2005-07 biennium, in the absence of this replacement bonding, the level of bonding would return to the 2002-03 level, but would be increased by 3% annually. Second, after the provision of bonding for the Marquette Interchange project, no additional bonding would be provided for other southeast Wisconsin freeway reconstruction projects. For the purposes of the analysis later in this paper, this scenario will be designated as Scenario B.

	Bonding Amounts				
Fiscal Year	Major Highway Development	State Highway Rehabilitation	Southeast Freeways	Administrative Facilities	Total Debt Service
2001-02	$127.0	$0.0	$0.0	$6.0	$87.9
2002-03	130.1	0.0	0.0	6.0	103.9
2003-04	173.3	147.7	0.0	6.0	135.1
2004-05	158.2	128.1	85.5	6.0	174.0
2005-06	134.0	0.0	394.7	6.0	225.1
2006-07	138.2	0.0	0.0	6.0	250.1
2007-08	142.2	0.0	0.0	6.0	257.7
2008-09	146.5	0.0	0.0	6.0	265.3
2009-10	150.9	0.0	0.0	6.0	266.7
2010-11	155.4	0.0	0.0	6.0	280.0
2011-12	160.1	0.0	0.0	6.0	291.4

10. The bonding provided for the state highway rehabilitation program and the increases provided for the major highway development program in 2003-05 represent a partial replacement of SEG reductions for the two programs. In turn, the SEG reductions in these two highway programs are part of an initiative to provide transportation fund dollars for shared revenue ($230,000,000 in 2003-04 and $170,000,000 in 2004-05) and K-12 education aids ($40,000,000 in 2003-04 and $60,000,000 in 2004-05), two programs that are currently funded with GPR. Since the bonding used in the highway programs allows transportation fund dollars to be provided for two traditionally general fund programs, a case could be made that the debt service on these bonds should be paid from the general fund. The following table presents a scenario in which transportation revenue bonds are used only for the base amount in the major highway development (inflated after the 2003-05 biennium) and administrative facilities programs and for the Marquette Interchange reconstruction project. Under this scenario, the bonding increases provided by the bill for the major

highway development program and the entire amount provided for the state highway rehabilitation program would be general fund-supported, general obligation bonds. Neither the general fund-supported bonds, nor the debt service associated with these bonds, are shown in the following table. (Under this scenario, general fund debt service would be $7.9 million in 2003-04, $28.4 million in 2004-05, and about $42.0 million annually thereafter. After the 10-year bonds for state highway rehabilitation are retired, payments would be reduced to about $6.0 million annually for another 10 years until the replacement major highway development bonds are retired.) For the purposes of the analysis later in this paper, this scenario will be designated as Scenario C.

	Transportation Revenue Bonding Amounts				Transportation
Fiscal Year	Major Highway Development	State Highway Rehabilitation	Southeast Freeways	Administrative Facilities	Fund Debt Service
2001-02	$127.0	$0.0	$0.0	$6.0	$87.9
2002-03	130.1	0.0	0.0	6.0	103.9
2003-04	130.1	0.0	0.0	6.0	127.2
2004-05	130.1	0.0	85.5	6.0	145.6
2005-06	134.0	0.0	394.7	6.0	184.0
2006-07	138.2	0.0	0.0	6.0	208.1
2007-08	142.2	0.0	0.0	6.0	215.6
2008-09	146.5	0.0	0.0	6.0	223.3
2009-10	150.9	0.0	0.0	6.0	224.7
2010-11	155.4	0.0	0.0	6.0	238.0
2011-12	160.1	0.0	0.0	6.0	249.4

11. The following table shows a fourth scenario, which is similar to the previous one, except that bond funding for the Marquette Interchange reconstruction project is eliminated. As in the previous scenario, general fund-supported, general obligation bonds would be used for the increases in the major highway development program bonding and for the entire amount of state highway rehabilitation bonding. Other sources of funding would have to be provided for the Marquette Interchange reconstruction project, both in 2004-05 and in the 2005-07 biennium. Under this scenario, general fund debt service for the highway program bonding would be the same as under Scenario C, as outlined in Point #10. For the purposes of the analysis later in this paper, this scenario will be designated as Scenario D.

	Transportation Revenue Bonding Amounts				Transportation
Fiscal Year	Major Highway Development	State Highway Rehabilitation	Southeast Freeways	Administrative Facilities	Fund Debt Service
2001-02	$127.0	$0.0	$0.0	$6.0	$87.9
2002-03	130.1	0.0	0.0	6.0	103.9
2003-04	130.1	0.0	0.0	6.0	127.2
2004-05	130.1	0.0	0.0	6.0	140.7
2005-06	134.0	0.0	0.0	6.0	153.8
2006-07	138.2	0.0	0.0	6.0	166.8
2007-08	142.2	0.0	0.0	6.0	174.3
2008-09	146.5	0.0	0.0	6.0	181.9
2009-10	150.9	0.0	0.0	6.0	183.3
2010-11	155.4	0.0	0.0	6.0	196.7
2011-12	160.1	0.0	0.0	6.0	208.1

12. The following list provides a summary of the previous scenarios.

Scenario A Includes bonding in the bill, plus the assumptions developed by DOT for bonding in the 2005-07 biennium and thereafter. Major highway development bonding would be inflated by 3% annually after the 2003-05 biennium from the 2004-05 amount in the bill. Bonding would be used for 55% of the estimated cost of southeast Wisconsin freeway reconstruction projects following the Marquette Interchange project.

Scenario B Includes bonding in the bill, but modifies the assumptions for bonding in the 2005-07 biennium and thereafter. Major highway development bonding would be inflated by 3% annually after the 2003-05 biennium, but from the 2002-03 base. No bonding would be provided for southeast Wisconsin freeway projects after the Marquette Interchange project is completed.

Scenario C Includes bonding in the bill, but would use general fund-supported, general obligation bonds for the bonding increases provided for the major highway development program and for the entire amount of bonding in the state highway rehabilitation program. With respect to the major highway development program and the Marquette Interchange project, the bonding assumptions for the 2005-07 biennium and thereafter are the same as in Scenario B.

Scenario D Would use general fund-supported, general obligation bonds for the major highway development and state highway rehabilitation programs, as in Scenario C. Non-bond funds would replace the bonding in the bill for the Marquette Interchange reconstruction project and, like Scenario C, no bonding would be provided for other southeast Wisconsin freeway reconstruction projects.

13. The following table compares the four scenarios with respect to the estimated revenue bond debt service coverage ratio. The coverage ratios presented in the table reflect the bill provisions that would expand the types of fee revenues that may be pledged to pay the debt service on revenue bonds to include most vehicle-related fees, including title fees (currently only regular registration fees are pledged for debt service) and provide $10 increases to the automobile registration fee and the vehicle title fee. The figures are based on the assumption that these revenues will increase according to long-range economic forecasts.

Transportation Revenue Bond Debt Service Coverage Ratios

Fiscal Year	Scenario A	Scenario B	Scenario C	Scenario D
2003-04	3.1	3.1	3.3	3.3
2004-05	2.6	2.6	3.1	3.2
2005-06	2.1	2.1	2.5	3.0
2006-07	1.8	1.9	2.3	2.8
2007-08	1.7	1.9	2.3	2.8
2008-09	1.6	1.9	2.2	2.7
2009-10	1.6	1.9	2.3	2.8
2010-11	1.5	1.9	2.2	2.6
2011-12	1.5	1.9	2.2	2.6

14. Coverage ratios can be used to indicate at what point the revenues that are pledged to pay debt service become insufficient to provide adequate backing for the issuance of additional bonds. Under the guidelines for the issuance of bonds under the transportation revenue bond program, new bonds may be issued only if the coverage ratio was at least 2.25 for at least 12 consecutive months of the proceeding 18 months. However, DOT indicates that a ratio of 2.5 or more is desirable in order to maintain a cushion above the level at which the issuance of additional bonds would be precluded. A coverage ratio below 2.5 may also increase the risk that the rating for the bonds is downgraded, which would increase the interest costs associated with the bonds.

15. As shown in the coverage ratio table, the coverage ratio would fall below 2.25 during the first year of the 2005-07 biennium under both Scenario A and Scenario B. Consequently, to continue issuing revenue bonds under these scenarios, additional funds would have to be pledged for debt service, either by expanding the base of transportation fund revenues that are pledged (such as a portion of the gas tax or other transportation fees) or by increasing the fees (such as registration

fees or title fees) that are already pledged or would be pledged under the bill. The point at which action would need to be taken to maintain a favorable coverage ratio would be delayed somewhat under Scenario C, although the bonds may be at risk of a rating downgrade unless some action is taken. Under Scenario D, coverage ratios exceeding 2.5 would occur throughout the period shown. It should be noted that some of the reduced revenue bond debt service under Scenario C and Scenario D, relative to the other scenarios, is due to the replacement of transportation fund debt service payments with general fund payments.

16. As noted above, declining coverage ratios can be remedied by pledging additional types of revenue to pay debt service. This strategy, although not necessarily unjustified, may have the effect of masking the overall impact of growth in the debt service burden. Therefore, an examination of coverage ratios may not provide a complete picture of the total level of debt service. An alternative way to analyze the level of debt service is the percentage of total transportation fund revenues that must be committed to the payment of revenue bond debt service. The following table shows these percentages for each scenario. For the purposes of this analysis, it was assumed that total transportation fund revenue would grow by 3.1% annually after the 2005-07 biennium, which has been the average, annual growth rate in transportation fund revenues, not including growth that results from fee increases, over the past several years. As shown in this table, debt service would grow as a percentage of total revenues under all four scenarios, although the growth would be greater under Scenario A than the other scenarios.

Revenue Bond Debt Service as a Percentage of Total Transportation Fund Revenue

Fiscal Year	Scenario A	Scenario B	Scenario C	Scenario D
2003-04	9.4%	9.4%	8.8%	8.8%
2004-05	11.3	11.3	9.5	9.2
2005-06	14.2	14.2	11.6	9.7
2006-07	15.8	15.3	12.7	10.2
2007-08	16.6	15.3	12.8	10.4
2008-09	17.3	15.3	12.9	10.5
2009-10	17.6	14.9	12.6	10.2
2010-11	18.5	15.2	12.9	10.7
2011-12	19.3	15.3	13.1	10.9

17. As noted above, gross transportation fund revenue has grown at about 3.1% annually over the past several years, not including the growth associated with fee increases. As the amount of debt service grows from year to year, some of this "natural" revenue growth must be used to pay for the additional debt service. If debt service grows rapidly, the amount of revenue that is not committed to the payment of debt service can be reduced to such an extent that providing above-base increases to transportation fund programs may become difficult.

18. To illustrate this point, the following table shows the amount of gross transportation fund revenues, minus amounts associated with the $10 fee increases for automobile registration and vehicle titles, and the amount of change in these amounts from the base year. Then, the amount of debt service under the bill is shown, also with the change to the base year. The final column shows the amount of new revenue that is not committed to the payment of debt service under this scenario, which is $10.9 million in 2003-04 and $44.5 million in 2004-05. The Governor's proposed fee increases for automobile registration and vehicle titles would result in additional new revenues, above the base year, of $24.6 million in 2003-04 and $49.9 million in 2004-05.

Fiscal Year	Gross Revenue	Gross Revenue Change from Base Year	Debt Service	Debt Service Change from Base Year	New Uncommitted Revenue
2002-03	$1,371.3	--	$103.9	--	--
2003-04	1,413.4	42.1	135.1	31.2	10.9
2004-05	1,485.9	114.6	174.0	70.1	44.5

19. On a year-to-year basis, uncommitted revenues (without the fee increases) would grow by $10.9 million in 2003-04 and $33.6 million in 2004-05. This would amount to a 0.9% increase in transportation fund revenues net of debt service in 2003-04 and a 2.6% increase in 2004-05. Consequently, without the proposed increases for automobile registration and title transfer fees, the amount of "natural" growth in transportation fund revenues would allow for across-the-board increases in transportation programs of 0.9% in 2003-04 and 2.6% in 2004-05.

20. The following table shows the annual percentage growth in revenues, net of debt service under each of the four bonding scenarios. For the purposes of this analysis, unlike the previous illustration, it is assumed that the bill's proposed increases for registration and title fees will be approved. After the 2003-05 biennium, it is assumed that total transportation fund revenues would grow by 3.1% annually. The negative percentages in 2005-06 under Scenarios A and B indicate that debt service would grow by an amount greater than gross revenues, which would require some reductions below the base level appropriations for the payment of debt service. Generally, the percentages represent the amount of increases that could be provided for programs funded from the transportation fund if the increases were provided on a uniform basis.

Percentage Growth in Transportation Fund Revenues, Net of Revenue Bond Debt Service

Fiscal Year	Scenario A	Scenario B	Scenario C	Scenario D
2003-04	2.8%	2.8%	3.4%	3.4%
2004-05	4.5	4.5	6.1	6.4
2005-06	-0.3	-0.3	0.7	2.5
2006-07	1.2	1.8	1.8	2.5
2007-08	2.2	3.1	3.0	2.9
2008-09	2.2	3.1	3.0	3.0
2009-10	2.7	3.6	3.5	3.4
2010-11	1.9	2.8	2.7	2.6
2011-12	2.1	2.9	2.8	2.8

21. The differences between the bonding scenarios in terms of net transportation fund revenue growth are most pronounced in the 2005-07 biennium. The following table shows the growth in net transportation revenues in the 2005-07 biennium compared to the 2004-05 base year doubled under each scenario, assuming 3.1% annual growth in gross revenues.

Net Transportation Fund Revenue Growth in 2005-07

	2004-05 Base Revenues	2005-07 Revenues	Change to Base Year Doubled Amount	Change to Base Year Doubled Percent
Scenario A	$1,361.8	$2,731.7	$8.1	0.3%
Scenario B	1,361.8	2,740.7	17.1	0.6
Scenario C	1,390.2	2,823.8	43.4	1.6
Scenario D	1,395.1	2,895.3	105.1	3.8

SUMMARY

As noted near the beginning of this paper, debt service on outstanding revenue bonds will require payments of $115.8 million in 2003-04 and $121.5 million in 2004-05. Under the bill, the proposed use of revenue bonds would increase these payments to $135.1 million in 2003-04 and $174.0 million in 2004-05, which would be an increase in debt service payments of $19.3 million in 2003-04 and $52.5 million in 2004-05. Of this amount, bonding at the base level in the major highway development and administrative facilities programs accounts for $11.4 million in 2003-04 and $19.2 million in 2004-05, while the remaining increase in debt service payments ($7.9 million in 2003-04 and $33.3 million in 2004-05) is associated with proposed above-base increases in bonding in the major highway development and state highway rehabilitation programs and for the Marquette Interchange project.

This paper outlines several alternative bonding scenarios and analyzes these scenarios in terms of their impact on revenue bond coverage ratios and on net transportation fund revenues. The

Legislature's decisions on the level of revenue bonding will affect the amount of debt service paid during the 2003-05 biennium, as well as during future biennia. As shown in the tables comparing the various bonding scenarios, these decisions will affect future debt service coverage ratios, the share of transportation fund revenues needed to pay debt service, and the year-to-year growth in transportation fund revenues available for other transportation programs.

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