



Legislative Fiscal Bureau

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

May 25, 2005

Joint Committee on Finance

Paper #716

Federal Highway Formula Aid (DOT -- Transportation Finance)

[LFB 2005-07 Budget Summary: Page 466, #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 typically 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 most recent multi-year authorization act is the Transportation Equity Act for the 21st Century, also known as TEA-21. TEA-21 expired on September 30, 2003, but its provisions have been extended under a series of short-term extension acts since that time as Congress works on a new, multi-year act. The current extension act expires on May 30, 2005.

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 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 amount. The Committee may approve, or modify and approve, the Department's plan to reallocate federal funds.

GOVERNOR

Reestimate federal highway formula aid at \$623,139,400 in 2005-06 and \$627,200,700 in 2006-07. The following table shows, by appropriation, how the bill would allocate federal

highway formula funds in each year of the 2005-07 biennium. The first column shows the base level for each appropriation, while the final column shows the changes made under the bill to the adjusted base, on a biennial basis.

	<u>2004-05 Base</u>	<u>Governor</u>		<u>Change To Base</u>
		<u>2005-06</u>	<u>2006-07</u>	
Local Transportation Facility Improvement	\$70,391,300	\$70,391,300	\$70,391,300	\$0
Local Bridge Improvement	24,438,300	24,438,300	24,438,300	0
Rail Passenger Service	4,572,600	6,035,900	7,243,100	4,133,800
Congestion Mitigation/				
Air Quality Improvement	11,619,000	11,619,000	11,619,000	0
Transportation Enhancements Grants	6,256,600	6,256,600	6,256,600	0
Railroad Crossing Improvements	3,299,600	3,299,600	3,299,600	0
Surface Transportation Grants	0	0	2,720,000	2,720,000
Major Highway Development				
State Highway Rehabilitation	31,198,400	78,975,000	78,975,000	95,553,200
Southeast WI Freeway Rehabilitation	286,983,000	296,867,400	347,963,200	70,864,600
Southeast WI Freeway Rehabilitation	88,085,600	110,000,000	59,444,800	-6,726,400
Departmental Mgmt. and Operations				
Highway Administration and Planning	8,564,700	9,789,600	9,546,700	2,206,900
Highway Maint. and Traffic Operations	4,228,500	4,363,800	4,200,200	107,000
	<u>1,102,900</u>	<u>1,102,900</u>	<u>1,102,900</u>	<u>0</u>
Total	\$540,740,500	\$623,139,400	\$627,200,700	\$168,859,100

DISCUSSION POINTS

1. The federal formula aid estimates in the Governor's bill represent increases of \$43,203,400 in 2005-06 and \$47,264,700 in 2006-07 from the level that had been estimated for 2004-05 during the deliberations on the 2003-05 biennial budget (\$579,936,000). These would be increases of 7.4% in 2005-06 from the estimated 2004-05 level and an additional increase of 0.7% in 2006-07 from the estimated 2005-06 level.

2. Although the federal aid estimate that the Legislature adopted during 2003-05 budget deliberations for 2004-05 was \$579,936,000, the actual amount reflected in DOT's appropriations in Act 33 for that year was just \$532,150,300. The difference between the Legislature's estimate and the Act 33 amount was not due to a reassessment of the amount that would be received, but instead primarily reflects the effect of a gubernatorial veto. The Governor reduced federal funding for the state highway rehabilitation program by \$47,776,600 through a write-down veto and directed the Department to reallocate those funds to the major highway development program. Since the Governor can reduce an appropriation through veto, but cannot reflect a corresponding increase to another appropriation, the total amount of federal highway aid reflected in DOT's appropriations is less than the amount that is expected to be received for that year. [The Joint Committee on Finance also made a minor adjustment (-\$9,100) to an administrative

appropriation prior to the passage of the bill, without a corresponding reallocation of that amount to other appropriations, after its major decisions on the transportation budget had been made.] In establishing the adjusted base under its budget request, DOT made adjustments to the treatment of certain base funds as formula funds, instead of as nonformula funds, that increase the base to \$540,740,500.

3. Due to the effect of the veto, the sum of the increases in federal highway funds provided for DOT appropriations by the bill are made from a base that should be considered to be artificially low, since it does not reflect the Legislature's federal aid estimate. In the table above (under the "Governor" section), the \$95,553,200 increase provided to the major highway development program over the biennium (\$47,776,600 annually) reflects an allocation of funds to that program as directed by the Governor in his veto message, bringing those amounts up to the level that is actually allocated for the program in 2004-05. The other increases reflect the allocation of expected increases in aid above the 2004-05 base.

4. The amount of federal highway aid that will be received for 2004-05 (federal fiscal year 2005) is still unknown, since Congress has not yet agreed upon a multi-year authorization act for surface transportation. In addition to providing the budgetary authority that allows funding to be distributed to the states, the authorization act also includes the formulas by which the aid is allocated to the states. Consequently, until a final authorization act is passed covering the remaining months of federal fiscal year 2005 (through the end of September), the state's aid for that year cannot be determined with certainty.

5. The state's federal highway aid corresponding to the two years of the 2005-07 biennium remains uncertain for the same reasons that the state's 2005 aid is unknown. That is, Congress has not yet agreed upon the formulas by which aid will be allocated to the states. However, there is added uncertainty for those years because there also has not been agreement on the total amount of highway aid that will be distributed to the states.

6. Although both the House and Senate have passed authorization bills, the differences between the two versions have not yet been reconciled. Consequently, in developing highway aid estimates for the two years of the 2005-07 biennium, the Committee will have to rely on preliminary estimates based on the provisions of the versions of the bill in both houses of Congress. The following table compares the estimates of what the state would receive under the House and Senate versions, with the estimates reflected in AB 100 (in millions).

	<u>2005-06</u>	<u>2006-07</u>	<u>Biennial Total</u>
AB 100	\$623.1	\$627.2	\$1,250.3
House Bill	\$623.1	\$644.6	\$1,267.7
Difference from AB 100	0.0	17.4	17.4
Senate Bill	\$640.1	\$639.8	\$1,279.9
Difference from AB 100	17.0	12.6	29.6

7. As shown in the table, based on current estimates of the aid the state would receive under the two versions, both bills would provide the state somewhat more than the amount reflected in the Governor's bill over the biennium. In either case, the difference would be less than 2.4% above the AB 100 levels.

8. Although the estimates of the amount of federal highway aid that the state would receive under both versions of the authorization bill are slightly higher than the amounts reflected in the budget bill, this does not necessarily mean that the final authorization bill will actually provide more aid. There may even be changes that result in reductions from the estimates shown in the previous table. The President has indicated, for instance, that the overall funding level in the Senate bill is too high and has threatened to veto a bill that provides an overall funding level that exceeds the amount that would be provided by the House bill (although the Senate passed the bill by a "veto-proof" margin). Furthermore, the formulas used to distribute aid under the Senate bill would provide Wisconsin a smaller share of the total than the House bill. Consequently, if the overall funding remains at the House level under the final act, but the Senate formulas are used to distribute that amount, the state's aid could be somewhat lower. Since the changes to the Congressional bills in a conference committee, as well as changes to the formula inputs that are used to determine the distribution of aid, are somewhat unpredictable, and given that the estimated aid under each authorization bill is within a narrow range of the estimates included in the budget bill, there does not appear to be a compelling case to be made that the state's aid will vary significantly from the amounts included in AB 100.

9. If 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 appropriation to modify. Typically, these decisions are made based on where the adjustments can be made without jeopardizing the state's ability to completely use the state's aid before the end of the federal fiscal year. However, if the difference between the amount that the state receives and the budgetary estimates is greater than 5%, DOT is required to submit a plan to the Committee for making adjustments.

SUMMARY

Since Congress has not yet passed a multi-year authorization act for surface transportation, the amount of federal highway aid that the state can expect to receive in the two years of the biennium remains uncertain. However, the estimates of what the state would receive under two versions of the authorization bill provide some indication of what the state would receive. Although these amounts are somewhat higher than the amounts reflected in AB 100, certain scenarios could result in lower amounts of aid. Given the continuing level of uncertainty concerning the state's highway aid and the fact that the estimates of the state's aid under both Congressional versions of the authorization act are fairly close to the amounts included in AB 100, those amounts appear to be reasonable estimates of the state's federal highway aid.

Prepared by: Jon Dyck