



Legislative Fiscal Bureau

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

May 3, 2011

Joint Committee on Finance

Paper #640--Revised

Transportation Fund Condition Statement (DOT -- Transportation Finance)

[LFB 2011-13 Budget Summary: Page 426, #1]

At the time of the introduction of the Governor's budget, the estimated, biennium-opening balance in the transportation fund was \$0 and the estimated closing balance was \$3,487,800. Since that time, the Department of Transportation (DOT) has reestimated revenues and this office has reviewed those estimates. The modified revenue estimates are reflected in the following revised fund condition statement.

| | <u>2011-12</u> | <u>2012-13</u> |
|-------------------------------------|------------------------|------------------------|
| Unappropriated Balance, July 1 | \$0 | \$16,303,400 |
| Revenues | | |
| Motor Fuel Tax | \$985,100,000 | \$978,500,000 |
| Vehicle Registration Fees | 616,556,100 | 611,280,000 |
| Less Revenue Bond Debt Service | -200,309,200 | -215,314,100 |
| Auto-Related Sales Tax | 0 | 35,127,000 |
| Driver's License Fees | 41,701,700 | 41,694,600 |
| Miscellaneous Motor Vehicle Fees | 28,794,700 | 28,793,800 |
| Aeronautical Fees and Taxes | 9,948,700 | 10,005,400 |
| Railroad Property Taxes | 26,337,100 | 26,723,000 |
| Investment Earnings | 2,210,100 | 11,422,800 |
| Miscellaneous Departmental Revenues | 40,186,300 | 40,444,900 |
| Total Annual Revenues | <u>\$1,550,525,500</u> | <u>\$1,568,677,400</u> |
| Total Available | \$1,550,525,500 | \$1,584,980,800 |
| Appropriations and Reserves | | |
| DOT Appropriations | \$1,499,518,700 | \$1,521,955,600 |
| Other Agency Appropriations | 24,925,100 | 25,129,300 |
| Less Estimated Lapses | -1,000,000 | -1,000,000 |
| Compensation and Other Reserves | 10,778,300 | 8,399,300 |
| Net Appropriations and Reserves | <u>\$1,534,222,100</u> | <u>\$1,554,484,200</u> |
| Unappropriated Balance, June 30 | \$16,303,400 | \$30,496,600 |

Opening Balance

The estimated opening balance at the time of introduction was \$0, and that continues to be the estimate. This estimate is based on the assumption that DOT will submit, and the Joint Committee on Finance will approve, a plan for reducing unencumbered balances in the 2010-11 continuing appropriations by an amount (in addition to lapses from annual and biennial appropriations) sufficient to eliminate a projected transportation fund deficit. The Department anticipates that without corrective action, the fund would end the 2009-11 biennium with a deficit, resulting from reductions in transportation fund tax and fee collections, relative to budget estimates, in both years of the biennium, as well as the final year of the 2007-09 biennium. At the time of the Department's initial revenue estimates, it was believed this biennium-ending deficit would be \$90.7 million. The transportation fund revenue outlook has improved somewhat, relative to these estimates, so that now this amount is expected to be between \$50 million and \$70 million. Since 2008-09, the Department has reserved a balance of unencumbered funds in the continuing appropriations for the highway improvement programs, in anticipation of the need to take corrective action on the deficit.

Motor Vehicle Fuel Tax

Compared to the amounts in the bill, motor vehicle fuel tax revenues are estimated to be \$13.5 million higher in 2011-12 and \$7.9 million higher in 2012-13. The base year fuel consumption estimate in 2010-11 increased from the earlier estimate due in part to higher than estimated actual gasoline and diesel fuel consumption through December, 2010. Under the current estimate, in 2011-12 and 2012-13, gasoline consumption would decline over the prior year by 3.2% and 1.9%, respectively, due primarily to more sustained, higher fuel prices during the forecast period compared to the earlier estimate (the revised figures reflect fuel price estimates from IHS Global Insight Inc.'s April, 2011, forecast). These reductions are partly offset by projected increases in diesel fuel consumption of 4.8% in 2011-12 and 3.2% in 2012-13 over the prior year, due to an increase in the Industrial Production Index, which is a key forecasting variable for diesel fuel consumption, compared to the earlier estimate. For the three-year period from 2010-11 through 2012-13, fuel consumption is estimated to be 116.9 million gallons higher than earlier estimates (55.7 million gallons for gasoline and 61.2 million gallons for diesel fuel). The following table indicates the currently projected consumption of motor fuel compared with DOT's original estimates.

**Taxable Gallons of Motor Fuel
(Gallons in Millions)**

| <u>Fiscal Year</u> | <u>Original Estimate</u> | <u>Revised Estimate</u> | <u>Difference</u> | <u>Percent Change</u> | <u>Year-to-Year Rate of Change</u> |
|--------------------|--------------------------|-------------------------|-------------------|-----------------------|------------------------------------|
| Gasoline | | | | | |
| 2009-10 | 2,463.9 | 2,463.9 | 0.0 | 0.0% | |
| 2010-11 | 2,477.7 | 2,512.5 | 34.8 | 1.4 | 2.0% |
| 2011-12 | 2,414.7 | 2,432.9 | 18.2 | 0.8 | -3.2 |
| 2012-13 | 2,384.6 | 2,387.3 | 2.7 | 0.1 | -1.9 |
| Diesel | | | | | |
| 2009-10 | 679.7 | 679.7 | 0.0 | 0.0% | |
| 2010-11 | 706.3 | 720.5 | 14.2 | 2.0 | 6.0% |
| 2011-12 | 730.4 | 755.0 | 24.6 | 3.4 | 4.8 |
| 2012-13 | 757.1 | 779.5 | 22.4 | 3.0 | 3.2 |
| Total | | | | | |
| 2009-10 | 3,143.6 | 3,143.6 | 0.0 | 0.0% | |
| 2010-11 | 3,184.0 | 3,233.0 | 49.0 | 1.5 | 2.8% |
| 2011-12 | 3,145.1 | 3,187.9 | 42.8 | 1.4 | -1.4 |
| 2012-13 | 3,141.7 | 3,166.8 | 25.1 | 0.8 | -0.7 |

Vehicle Registration-Related Revenue

Gross vehicle registration revenues are projected to be higher than earlier estimates by \$4.2 million in 2011-12 and \$4.7 million in 2012-13. The increase is due primarily to comparatively higher projected heavy truck registrations, which is partially offset by somewhat lower light vehicle registrations (automobiles and light trucks). Relative to current vehicle registration levels (as opposed to relative to earlier estimates), both automobile and light truck registrations are expected to decline slightly over the two years of the biennium (-0.3% annually), continuing trends over the past three to four years. Heavy truck registrations, however, are expected to increase over the two years (by 2.6% and 2.9%, respectively).

Revenue Bond Debt Service

Revenue bond debt service, which is paid from vehicle registration revenues prior to those revenues being deposited in the transportation fund, is projected to be higher than previously assumed by \$4.0 million in 2011-12 and \$3.2 million in 2012-13, reflecting revised assumptions related to the timing of initial principal and interest payments.

Aeronautical Fees and Taxes

Revenue generated from airline ad valorem taxes is expected to be lower than previous estimates by \$0.6 million in 2011-12 and \$0.5 million in 2012-13, reflecting the net effect of revised statewide property tax rates and airline property valuation. However, total revenue in the aeronautical category would increase due to a transfer from the general fund under the state's hub airline facility exemption. Under that current law provision, an annual transfer is made in an amount equal to the ad valorem tax paid by each airline that qualifies for the exemption in the final year before it qualified for the exemption (the transfer is included in the aeronautical taxes and fees category in the fund condition statement). Under the original estimate, it was assumed that Midwest Airlines, the only airline that previously qualified for the exemption, would no longer be eligible due to the purchase of the airline, which affected the number of flights that could be credited to the purchasing company (a factor in the definition of a hub facility). However, since that time, the Department of Revenue has determined that Republic Airlines, the purchasing company, does qualify for the exemption. As a result, the revised estimate reflects an annual transfer of \$2.3 million from the general fund, equal to the amount of taxes previously paid by Midwest Airlines and the other airlines now subsumed under Republic Airlines' operations (the general fund appropriations in the bill already reflect this transfer so this change only affects the transportation fund condition). The net change to the aeronautical taxes and fees category is an increase of \$1.8 million annually.

Railroad Property Tax

Ad valorem tax collections on railroad property are expected to be higher than earlier estimates by \$0.6 million in 2011-12 and \$1.0 million in 2012-13, reflecting the net effect of revised statewide property tax rates and railroad property valuation.

Investment Earnings

Relative to earlier estimates, investment earnings attributable to transportation fund cash fund balances are projected to be lower by \$1.3 million in 2011-12 and higher than the earlier estimates by \$0.6 million in 2012-13, reflecting revised forecasts of interest rates.

Other Agency Appropriations

Transfers to the conservation fund under the motorboat, snowmobile, and all-terrain vehicle formulas are projected, in aggregate, to increase by \$0.2 million in 2011-12 and \$0.1 million in 2012-13, relative to budget estimates.

Summary

The 2011-13 biennium-ending balance in the transportation fund is now estimated at \$30.5 million, which is \$27.0 million higher than the assumed fund balance at the time of introduction.

The primary factors in this revision are higher collections for motor fuel taxes and vehicle

registration fees, reflecting forecast revisions based on various national and state economic indicators and actual collections data. As noted above, these revisions are changes to earlier estimates, not changes to base year collections. Relative to 2010-11, collections of motor fuel taxes are generally projected to decline, continuing trends of the past several years. Vehicle registration revenues are projected to grow slightly, driven primarily by a projected increase in heavy truck registrations.

Prepared by: Jon Dyck and Al Runde