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Fund Condition Statement (DOT -- Transportation Finance)

[LFB 2013-15 Budget Summary: Page 449, #1]

The Governor's budget was based on revenue and debt service estimates made prior to the time of the bill's introduction. Since that time, the Department of Transportation (DOT) has reestimated revenues and debt service payments and this office has reviewed, and, in some cases, modified, those estimates. The resulting estimates are reflected in the fund condition statement shown below. At the time of introduction, the biennium-ending fund condition was estimated at $12.6 million. However, due largely to projections of lower motor fuel tax revenues, the transportation fund is now projected to have a biennium-ending deficit of $63.5 million. This paper describes the factors that account for the estimated reduction in the balance.

	2013-14	2014-15
Unappropriated Balance, July 1	$109,460,500	-$18,970,300
Revenues		
Motor Fuel Tax	$971,800,000	$981,300,000
Vehicle Registration Fees	637,996,400	634,933,100
Less Revenue Bond Debt Service	-225,424,300	-234,967,700
General Fund Transfer	58,127,000	36,302,500
Petroleum Inspection Fund Transfer	22,258,500	22,258,500
Driver's License Fees	40,492,500	40,338,400
Miscellaneous Motor Vehicle Fees	28,941,500	29,061,800
Aeronautical Fees and Taxes	8,189,100	8,322,400
Railroad Property Taxes	30,838,900	31,521,100
Investment Earnings	-389,500	-389,500
Miscellaneous Departmental Revenues	21,586,700	22,347,800
Total Annual Revenues	$1,594,416,800	$1,571,028,400
Total Available	$1,703,877,300	$1,552,058,100
Appropriations and Reserves		
DOT Appropriations	$1,696,993,100	$1,585,022,900
Other Agency Appropriations	24,854,000	25,195,500
Less Estimated Lapses	-3,500,000	-3,500,000
Compensation and Other Reserves	4,500,500	8,866,000
Net Appropriations and Reserves	$1,722,847,600	$1,615,584,400
Unappropriated Balance, June 30	-$18,970,300	-$63,526,300

Opening Balance

The estimated opening balance at the time of introduction was $88.0 million, an amount that is now estimated to be $21.5 million higher, at $109.5 million. At the time of the passage of the 2011-13 biennial budget (2011 Act 32), the 2011-13 biennial ending balance in the transportation fund (which is also the 2013-15 opening balance) was estimated at $1.4 million, so current estimates represent a $108.1 million increase over the 2011-13 budget estimate. There are several factors that account for the increase, which are summarized in the following table.

Change to 2013-15 Opening Balance, Relative to Act 32 Estimates ($ in Millions)

Item	Change to Balance
Debt Service Savings	$50.4
Vehicle Registration Revenues	30.2
Net Appropriations/Reserves*	20.2
2011-13 Opening Balance	17.5
Motor Fuel Tax Revenues	-10.1
All Other Revenues	-0.1
Total	$108.1

* Higher lapses and lower appropriations, resulting in an increase to the fund balance.

The largest difference in the opening balance is $50.4 million in debt service savings, relative to Act 32 estimates, on the combination of transportation revenue bonds and transportation fund-supported general obligation bonds. These savings are primarily due to two factors. First, the Act 32 debt service estimates assumed an earlier issuance of bonds than has actually occurred in the 2011-13 biennium. The later issuance of bonds in each fiscal year delayed the start of the amortized schedule of payments on the bonds, which lowered the principal and interest amounts that needed to be repaid in the biennium. Second, the bonds issued in the biennium were generally sold at a premium. Bonds are sold at a premium when the coupon rates on the bonds exceed the market rates, at the time of sale, for the same maturity. The premiums were proceeds in excess of the bond principal, which were used in the biennium to offset a portion of the annual debt service payments on bonds sold for the same purpose. However, it should be noted that while bond premiums can offset debt service payments in the near term, a tradeoff occurs because payments in the later years of the bond issue are somewhat higher than otherwise would be the case due to the higher coupon rate.

Other changes to the opening balance include higher vehicle registration revenues ($30.2 million), although this was partially offset by lower fuel tax revenues (-$10.1 million), for a net increase from these two sources of $20.1 million. In total, biennial revenues from the remaining sources were down slightly from Act 32 estimates.

Net appropriations and reserves are expected to be lower than Act 32 estimates by $20.2 million in 2011-13. This change is due to the combination of higher appropriation lapses from

DOT administrative appropriations because of position vacancies and reduced use of compensation reserves. Finally, the opening balance for the 2011-13 biennium was $17.5 million higher than assumed at the time of the passage of Act 32, which was because of lower debt service payments, slightly higher revenues, and appropriation lapses.

Going forward, there are some indications that the circumstances that produced positive changes to the fund condition in the 2011-13 biennium will not recur. The Department of Administration (DOA) indicates that it is not known whether bonds will continue to be sold at a significant premium. Instead, bonds may be sold at rates that are closer to market rates for each maturity, which would produce smaller, if any, premiums that could be used to offset current debt service. Already in 2012-13, total bond premiums appear to be substantially less than in 2011-12. Also, since DOT has made an effort to fill vacant positions in 2012-13, lapses from administrative appropriations can be expected to be less. The revenue estimates described below have taken these changing conditions into consideration.

Motor Vehicle Fuel Tax

Compared to the amounts in the bill, motor vehicle fuel tax revenues are estimated to be $42.5 million lower in 2013-14 and $42.8 million lower in 2014-15. In addition, the base year fuel consumption estimate in 2012-13 decreased from the earlier estimate due to lower than estimated actual gasoline and diesel fuel consumption through December, 2012, and lower forecasted consumption for the remainder of the year. Overall, compared to the amounts in the bill, motor vehicle fuel tax revenues are estimated to be $107.4 million lower over the three-year period from 2012-13 through 2014-15 compared to earlier estimates.

For the three-year period, fuel consumption is estimated to be 347.7 million gallons lower than earlier estimates. Overall fuel consumption in 2012-13 is now estimated to drop by 1.4% from the 2011-12 level and then is projected to increase over the prior year by 0.2% in 2013-14 and 1.0% in 2014-15. The decline in 2012-13 reflects actual consumption being notably lower than earlier projections, due to actual fuel prices being higher and Wisconsin disposable income being lower than projected. The decline in diesel consumption is also reflective of lower than expected heavy truck registrations compared to the earlier estimate. The reduction in consumption in the 2013-15 biennium compared to earlier estimates occurs since the current projections of fuel prices and Wisconsin disposable income used in forecasting fuel consumption, while stabilizing compared to the first six months of 2012-13, remain less favorable than those used to derive the earlier estimates. 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)

Fiscal Year	Original Estimate	Revised Estimate	Difference	Percent Change	Year-to-Year Rate of Change
Gasoline					
2011-12	2,487.4*	2,487.4*	0.0	0.0%	
2012-13	2,466.5	2,431.8	-34.7	-1.4	-2.2%
2013-14	2,558.1	2,434.3	-123.8	-4.8	0.1
2014-15	2,564.7	2,459.9	-104.8	-4.1	1.1
Diesel					
2011-12	696.7*	696.7*	0.0	0.0%	
2012-13	744.9	708.0	-36.9	-5.0	1.6%
2013-14	725.2	711.5	-13.7	-1.9	0.5
2014-15	750.1	716.3	-33.8	-4.5	0.7
Total					
2011-12	3,184.1*	3,184.1*	0.0	0.0%	
2012-13	3,211.4	3,139.8	-71.6	-2.2	-1.4%
2013-14	3,283.3	3,145.8	-137.5	-4.2	0.2
2014-15	3,314.8	3,176.2	-138.6	-4.2	1.0

*Actual.

Vehicle Registration-Related Revenue

Gross vehicle registration revenues are projected to be lower than earlier estimates by $2.6 million in 2013-14 and $2.7 million in 2014-15. Relative to the estimate used for the Governor's bill, the number of automobile, light truck, and heavy trucks is projected to be slightly lower, largely reflecting the same revisions to economic forecasts impacting motor fuel consumption in the reestimate. However, the downward revision in revenues in this category is small as a percentage of total revenues. Relative to the bill estimates, registration-related revenues are projected to be lower by 0.4% in each year.

It should be noted that while the revised registration revenue estimates are lower than the estimates in the bill, they would be higher than current estimates of registration revenues in 2012-13. Vehicle registration revenues in the 2013-15 biennium are now projected to increase by 1.2% over such revenues in the 2011-13 biennium, but this increase is less than the 1.6% increase projected under the bill.

Debt Service Estimates

DOA Capital Finance staff indicate that the bond market remains somewhat volatile, not with respect to the true interest cost of financing, which is expected to remain low, but in how bond sales are most advantageously structured to receive the lowest true interest cost to the state.

Specifically, it is not known whether the bond market will continue to have a preference for bonds that are structured to yield premiums at the time of issuance. If bonds are sold at market rates in the biennium, proceeds from premiums would not be available to significantly offset debt service payments as has been done in recent years, although the state would experience lower interest costs in the biennium associated with the closer to market coupon rates on the bonds. Conversely, if the state again sells bonds at a premium, more significant debt service savings could accrue in the biennium, but the state would face higher financing rates in the out years associated with those premiums.

This estimate assumes that the transportation revenue bonds and the transportation fund-supported segregated bonds issued in the biennium will be sold closer to projected market rates for the individual maturities, and thus, no significant premium proceeds will be generated. As a result, some debt service savings will accrue in the biennium compared to the bill due to the lower interest costs associated with the lower rates on the bonds. Under this assumption, transportation revenue bond debt service is projected to be $4.0 million lower over the biennium compared to the bill. Making a similar assumption on transportation fund-supported general obligation bonds also lowers estimated debt service (by $5.9 million), although this reduction is offset by a correction in the misallocation of $5.9 million in debt service under the bill between a general fund appropriation and a transportation fund appropriation.

Other Fund Revenues

All other transportation fund revenues are projected to be, in aggregate, lower than budget estimates by $2.7 million over the biennium. Some sources are projected to be higher than earlier estimates, including railroad ad valorem taxes (by $5.6 million) and aeronautical taxes and fees (by $1.3 million), while others are projected to be lower, including fund investment earnings (by $5.1 million), miscellaneous motor vehicle revenues (by $4.4 million), and driver's license revenues (by $0.2 million).

Appropriation Lapses

The Governor's budget assumed annual appropriation lapses of $7.0 million, based on the average appropriation lapses over the past several years. However, a significant portion of past lapses has been due to factors that are expected to be lessened in the 2013-15 biennium. First, because of bond premiums, actual general obligation bond debt service, which is paid from sum sufficient, transportation fund appropriations, has been consistently lower than budgetary estimates in recent years. [In this case, the "lapse" is the difference between budget estimates, which did not reflect premiums, and the actual debt service payments.] As noted above, the debt service estimates discussed in this paper are based on adjusted interest rates to reflect the expectation that bond premiums are less likely to occur going forward. If this expectation proves correct, then debt service estimates can be expected to be closer to actual payments, thereby minimizing the lapse associated with debt service appropriations. Second, lapses in prior years were affected by high position vacancy rates in several DOT programs. During the past year, the Department has made an effort to fill vacant positions, which could be expected to limit lapses from administrative appropriations. Based on these factors and a review of recent lapses due to other reasons, the reestimated fund condition reflects anticipated lapses of $3.5 million annually.

Summary

The revenue estimates upon which the Governor's transportation budget was based were generally conducted in the fall of 2012, at the time of the Department of Transportation's biennial budget request submittal. Since that time, revisions in economic forecasts and lower-than-expected revenue collections through the first several months of 2012-13 have dampened the outlook for revenue collections, primarily from the motor fuel tax, in the 2013-15 biennium. When combined with a larger estimated opening balance, the revised revenue and spending estimates for the 2013-15 biennium, under the provisions of AB 40, produce an estimated closing balance of -$63.5 million.

One additional factor should be considered in evaluating the implications of the revised fund condition statement. AB 40 includes a proposal to expand the current flood damage aids program to include other disasters and costs incurred in response to a disaster (see Page 456, Item #3, of the LFB Budget Summary for a complete description). The proposal would also extend aid retroactively for costs incurred in response to any disaster that occurred on or after July 1, 2011. Based on preliminary damage estimates related to timber salvage operations occurring after major storms in the summer of 2011 in Burnett, Douglas, and Washburn counties, this proposal could result in payments of up to $10 million. The sum sufficient appropriation estimate in AB 40 ($1,000,000 annually) does not reflect this potential cost, but that estimate is not limiting. Any aid paid in excess of the AB 40 estimate would further reduce the transportation fund balance.

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