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May 19, 2015 Joint Committee on Finance Paper #631

Transportation Bond Summary and Pledge of Motor Vehicle Fuel Tax Revenues for Payment of Revenue Bond Debt Service (Transportation -- Transportation Finance)

[LFB 2015-17 Budget Summary: Page 434, #2 and Page 437, #8]

CURRENT LAW

The state issues two types of long-term debt obligations for transportation-related capital improvement projects: transportation revenue bonds, supported primarily by registration fees; and general obligation bonds, supported by either general purpose revenues (GPR) or segregated (SEG) transportation fund revenues. Transportation revenue bonds are provided primarily for the major highway development program, but also for administrative facility capital projects. The Department of Transportation (DOT) has the authority to pledge the revenue derived from various vehicle registration and other vehicle-related fees for the repayment of transportation revenue bonds. Any registration fees dedicated initially to supporting the transportation revenue bond program that are not needed for transportation revenue bond debt service in a given year, are then deposited to the transportation fund.

GOVERNOR

Modify the Department's authority under the transportation revenue bond program by authorizing the Department to deposit the revenue derived from 50% of the state's motor vehicle fuel tax revenues in a separate and distinct special fund outside the state treasury. Specify that the revenues would be deposited to the same account currently maintained by a trustee for the purposes of the repayment of transportation revenue bonds. The remaining motor vehicle fuel tax revenues would continue to be deposited directly to the transportation fund. Also, as directed under current law for existing pledged revenues, any pledged revenues from the motor vehicle fuel tax in excess of the annual debt service amounts on transportation revenue bonds would be transferred to the transportation fund at least twice a year and would be free of any further pledge. The administration indicates that while these motor vehicle fuel tax revenues would be pledged to the transportation revenue bond program, existing pledged revenues from the registration fees would be sufficient to cover debt service costs under the program, and that the pledged motor vehicle fuel tax revenues would not have to be initially deposited with the revenue bond program trustee.

This authority would be provided in addition to the Department's current law authority to pledge the revenue derived from various registration and titling fees for the repayment of transportation revenue bonds and would be governed by the same statutory provisions.

Specify that the Department of Revenue could no longer allocate any motor vehicle fuel tax revenues to pay contracts to entities for the collection of delinquent taxes.

The following table summarizes the biennial bond authorization for transportation projects in the bill, by type of bond and program or project.

Transportation Fund-Supported, General Obligation Bonds	
State Highway Rehabilitation	$242,386,600
Freight Rail Preservation	43,000,000
St. Croix Crossing/Stillwater Bridge Project	30,000,000*
Hoan Bridge/Lake Interchange Project	16,800,000
Subtotal	$332,186,600
General Fund-Supported, General Obligation Bonds	
Passenger Rail Development	-$43,000,000
Transportation Revenue Bonds	
Major Highway Development	$624,531,800
Southeast Wisconsin Freeway Megaprojects	392,093,800
Administrative Facilities	11,880,000
Subtotal	$1,028,505,600
Less Estimated Carryover Balance	-17,478,600
Requested Authorization	$1,011,027,000
Total	$1,300,213,600

*Although the bill would provide $30,000,000 in bonding authority for this purpose, the administration indicates that the intent was to provide only the $20,000,000 the Department requested to complete this project.

DISCUSSION POINTS

1. The focus of this paper will be on SEG-supported, general obligation bonding for transportation projects and transportation revenue bonds that are supported from transportation-related fees and revenues. The first part of the paper provides a discussion of the Governor's recommendation to authorize $1.3 billion in transportation-related bonding. In doing so, the paper specifically addresses the potential effect that this extensive and continued use of long-term borrowing for the state's highway programs will have on the transportation fund going forward. The purpose of this discussion is to provide a general overview of these issues. Other issue papers have

been, or will be, presented for the specific transportation programs to help the Committee make decisions on those programs. The second part of the paper discusses the Governor's recommendation to pledge 50% of the state's motor vehicle fuel tax revenues to support the transportation revenue bond program, and provides the Committee with some alternatives.

Bonding and Transportation Revenue Trends

2. Table 1 shows the estimated debt service amounts on bonds issued for transportation-related purposes for the 2015-17 biennium under the Governor's budget recommendations, including GPR-supported bonds. The debt service amounts are shown by type of bond and by the funds used to support each bond type. The amounts shown include debt service on bonds that have been issued, on bonds currently authorized but unissued, and on any new bonding provided under Assembly Bill 21/Senate Bill 21 (AB 21/SB 21) expected to be issued in the biennium.

TABLE 1

Estimated Debt Service on All Transportation-Related Bonds

Bond Type	2015-16	2016-17
Transportation Revenue Bonds*	$242,101,400	$276,309,000
General Obligation Bonds		
GPR-Supported	123,394,800	106,564,900
SEG-Supported*	121,527,500	132,023,000
Total Debt Service	$487,023,700	$514,896,900

*As estimated under LFB's Transportation Fund Condition Paper #630.

3. The Governor's 2015-17 budget recommendations would authorize $1.3 billion in transportation-related bonds ($1,343.2 million in transportation fund-supported bonds less $43.0 million in rescinded GPR-supported bonds for passenger rail). Table 2 lists the biennial transportation fund-supported bond authorizations, by program, over the past six biennia, and the proposed level of bonding under AB21/SB21. [Since the focus of this section is on transportation fund debt service, GPR-supported bonds issued during these biennia are excluded from this table.] Except for $5.9 million annually spent on DOT administrative facility construction projects, transportation revenue bonds have historically been exclusively issued for the major highway development program. However, under the Governor's recommendations, transportation revenue bonds, for the first time, would be authorized for the southeast Wisconsin freeway megaprojects program ($392.1 million).

TABLE 2

Transportation Fund-Supported Bond Authorization ($ in Millions)

	Major Highway/ Admin. Facilities*	SE Wisconsin Freeway Megaprojects	Other State Highway Projects	Freight Rail and Harbor Projects	Stillwater/Hoan Bridge Projects	Total
2003-05	$342.5	$0.0	$0.0	$7.5	$0.0	$350.0
2005-07	228.8	213.1	0.0	24.7	0.0	466.6
2007-09	384.0	90.2	0.0	34.7	0.0	508.9
2009-11	301.4	250.3	110.0	72.7	225.0	1,059.4**
2011-13	341.8	151.2	131.0	40.7	0.0	564.7**
2013-15	416.5	107.0	0.0	67.9	200.0	791.4
2015-17***	618.9	392.1	242.4	43.0	46.8	1,343.2

* Includes approximately $11.8 million each biennium for administrative facilities.
** These totals reflect $100.0 million in transit capital bonding approved in 2009-11 and then rescinded in 2011-13.
***Proposed under AB 21/SB 21.

4. As the preceding table shows, the amount of bonds authorized for transportation projects has increased over the period shown, particularly corresponding to the period when the state began the large reconstruction projects on the Milwaukee-area freeway system, and other large projects, like the Stillwater and Hoan bridge projects. As an indication of the growth in the use of transportation fund borrowing, the total of the bonding authorized over the last three biennia listed in the table ($2.7 billion) would exceed the transportation bonds authorized in the previous four biennia listed ($2.4 billion). However, it should also be noted that during the period from 2003-05 through 2013-15, GPR-supported, general obligation bonds were also authorized each biennium for transportation-related purposes.

5. In testimony on the bill, the DOT Secretary argued that the extensive use of bonds in the state highway program is justified because the interest rate environment for bonding remains very favorable and that lower recommended bonding in other areas of the state budget would mean that overall state bonding will be significantly lower than in past biennia. The Secretary also noted that the use of bonds allows the cost of building or reconstructing long-lasting transportation assets like the Zoo Interchange project to be spread out over the life of the facility, meaning that both current and future users of the project will pay for the improvement. The Secretary indicated that the borrowing is needed because the Governor is committed to making the investments in our transportation infrastructure necessary to make the state's transportation system a safe and efficient system.

6. Although the increase in the use of bonds is related to the start of the reconstruction of the southeast Wisconsin freeway system, other general trends in transportation finance may have also played a role. Due to slow growth (or decline) of motor fuel consumption and the number of vehicles registered, revenues available for transportation have not been sufficient to maintain the purchasing power for many transportation programs or to respond to increased funding demands. In large part, over the past several biennia, and under the bill, the lack of revenues available to meet the demands of the state highway programs and other DOT programs have led to decisions to use

bonding to fund a significant part of the state highway program. The increased debt service associated with the decision to rely heavily on bonding has put further pressure on the transportation fund's ability to meet program demands.

7. The percentage of gross transportation fund revenues needed to pay total transportation fund debt service on both transportation revenue bonds and general obligation bonds is a frequently used measure that demonstrates the impact that the extensive use of bonding has on the transportation fund. It is a good measure because it takes into account both annual changes in debt service and annual changes in revenues. Table 3 illustrates this measure by showing transportation fund revenue and total transportation fund debt service amounts since 1998-99, including the amounts estimated under AB 21/SB 21. The transportation revenues listed are exclusive of transfers to the transportation fund from other funds. These revenue amounts are gross amounts prior to any deductions for transportation revenue bond debt service. The debt service numbers are the total of transportation revenue bond debt service and debt service on transportation fund-supported, general obligation bonds.

TABLE 3

Annual Growth in Transportation Fund Revenues (Net of Transfers from Other Funds) and Transportation Fund-Supported Debt Service ($ in Millions)

	Gross Transportation Fund Revenues		Transportation Debt Service		Debt Service as
Fiscal Year	Amount	Annual Change	Amount	Annual Change	a % of Revenue
2001-02	$1,337.7		$93.3		7.0%
2002-03	1,386.6	$48.9	105.8	$12.5	7.6
2003-04	1,440.4	53.8	119.7	13.9	8.3
2004-05	1,476.6	36.2	166.2	46.5	11.3
2005-06	1,517.0	40.4	148.2	-18.0	9.8
2006-07	1,606.5	89.5	165.3	17.1	10.3
2007-08	1,661.0	54.5	187.5	22.2	11.3
2008-09	1,687.3	26.3	191.0	3.5	11.3
2009-10	1,697.9	10.6	184.8	-6.2	10.9
2010-11	1,715.9	18.0	197.2	12.4	11.5
2011-12	1,743.9	28.0	240.7	43.5	13.8
2012-13	1,720.3	-23.6	259.5	18.8	15.1
2013-14	1,784.6	64.3	294.2	34.7	16.5
2014-15 (Estimated)	1,799.6	15.0	331.6	37.4	18.4
2015-16 (Estimated)	1,824.4	24.8	363.6	32.0	19.9
2016-17 (Estimated)	1,834.2	9.8	408.3	44.7	22.3
Total Change By Period	Amount	Percent	Amount	Percent	Percentage Points
2001-02 to 2006-07	$268.8	20.1%	$72.0	77.2%	3.3%
2006-07 to 2011-12	137.4	8.6	75.4	45.6	3.5
2011-12 to 2016-17	90.3	5.2	167.6	69.6	8.5

8. Limited revenue growth and previous decisions to use bonding extensively to finance the state's highway programs have driven the annual increases in debt service shown in Table 3 and affected the ratios shown in the table. The Governor's recommendations for financing the state highway program in the biennium would rely even more heavily on transportation fund-supported bonding than in past biennia. This will further and more quickly escalate the impact of debt service costs on the transportation fund.

9. The major transportation projects resulting from the needed reconstruction of the southeast Wisconsin freeway system will continue to require significant funding in the 2015-17 biennium. However, the demands in the state's highway programs will require a sustained, high level of funding beyond the 2015-17 biennium. This sustained level of funding will likely require future funding commitments similar to those amounts provided for the state highway programs under AB 21/SB 21, or in recent biennia. This was suggested by the DOT Secretary in testimony before the Committee, who, while acknowledging the southeast Wisconsin freeway projects are "once in a lifetime reconstruction projects," agreed that the state highway program is not in a "building bubble" and the current funding demands will likely continue.

10. Given current debt service demands and that state highway program demand will likely continue, natural growth in existing transportation fund revenues will not be able to sustain continued high levels of borrowing. Further, continually adding significant amounts of borrowing each year results in the added debt service on that borrowing consuming a larger and larger share of transportation fund revenues. This effect is shown in Table 3, where for five of the last six years listed, the annual growth in total debt service has exceeded, or is estimated to exceed, the annual growth in gross transportation fund revenues excluding transfers. This effect will continue to reduce revenues available to cash fund other transportation programs.

11. From 2008-09, the first year since the last, major revenue increase ($20 auto registration and 30% heavy truck registration fee increases), through 2016-17, using the transportation fund revenue projections included in the bill, the average, annual percentage growth in revenues is 1.05%. Table 4 illustrates how the ratio of transportation fund debt service as a percentage of transportation fund revenues would look through 2020-21 under alternate future bonding amounts and assuming the 1.05% natural, annual growth in transportation fund revenues continues.

TABLE 4

Estimated Annual Debt Service as a Percentage of Transportation Fund Revenues Under Alternate Biennial Bonding Scenarios ($ in Millions)

AB 21/SB 21 (No New Bonding Beyond 2015-17)			
Year	Debt Service	Revenue	Ratio
2016-17	$408.3	$1,834.2	22.3%
2017-18	443.1	1,853.4	23.9
2018-19	442.4	1,872.8	23.6
2019-20	446.4	1,892.5	23.6
2020-21	445.7	1,912.3	23.3

$700 Million Per Biennium			
Year	Debt Service	Revenue	Ratio
2016-17	$378.5	$1,834.2	20.6%
2017-18	409.8	1,853.4	22.1
2018-19	434.2	1,872.8	23.2
2019-20	463.3	1,892.5	24.5
2020-21	487.6	1,912.3	25.5

$1 Billion Per Biennium			
Year	Debt Service	Revenue	Ratio
2016-17	$393.4	$1,834.2	21.4%
2017-18	435.5	1,853.4	23.5
2018-19	470.6	1,872.8	25.1
2019-20	510.5	1,892.5	27.0
2020-21	545.5	1,912.3	28.5

$1.3 Billion Per Biennium			
Year	Debt Service	Revenue	Ratio
2016-17	$408.3	$1,834.2	22.3%
2017-18	461.1	1,853.4	24.9
2018-19	507.0	1,872.8	27.1
2019-20	557.6	1,892.5	29.5
2020-21	603.4	1,912.3	31.6

12. As indicated in the table, the estimated ratio in 2020-21 would range from 23.3%, if no new bonding was authorized beyond the amounts included in the Governor's recommendations, to 31.6% if the state would continue to borrow at a level similar to the bonding level recommended by the Governor. For some perspective, over the past five biennia, the average level of transportation-related bonding (including GPR-supported bonds) provided each biennium was $856.6 million. If the Governor's recommended 2015-17 bonding amount is included, the average level of transportation bonding (including GPR-supported bonds) provided over these six biennia would increase to $930.6 million.

13. The $700 million per biennium and $1 billion per biennium scenarios shown in Table 4 are based on initiating these bonding levels in the 2015-17 biennium and then maintaining them in the next two biennia. As shown, these policies would lower the debt service ratio in 2016-17 when compared to AB 21/SB 21. However, even at these lower bonding levels, annual debt service increases would exceed annual revenue growth, leading to continued increases in the share of transportation fund revenues committed to debt service.

14. The fact that debt service payments have consistently been growing faster than transportation fund revenues suggests that current transportation fund revenues are not sufficient to continue the recent or proposed levels of bonding. The last major increase in transportation revenues came in the form of registration fee increases in the 2007-09 biennium. Conversely, the repeal of the annual indexing of the state's motor vehicle fuel tax rate after the April, 2006, indexing has resulted in actual motor fuel tax revenues being nearly $1 billion less, on a cumulative basis,

than they would have been had the repeal not took effect. The DOT Secretary, in his agency's 2015-17 budget request, indicated that the Governor gave him a charge to find a long-term solution for ensuring the state's transportation system continues to support economic development in Wisconsin while also developing a sustainable way to fund it. DOT's 2015-17 biennial budget request reflected this charge and included over $751 million in revenue increases and over $547 million in additional support from other funds. However, in testimony, the Secretary indicated that while the Governor understands the need for additional transportation fund revenue, and has indicated support for additional revenues, the Governor is committed to not increasing overall taxes or fees on the citizens of the state, and both could not be done under this budget. If the Committee wishes to increase revenues to the transportation fund, a separate LFB Issue Paper possible revenue options that could improve the fund's long-term sustainability.

15. The Committee could identify segregated transportation funds that could be put into the state highway program to reduce the level of transportation-related bonding for that program. Since the budget was introduced, 2015-17 transportation fund revenues have been reestimated [LFB Issue Paper #630], and using the Governor's funding recommendations on spending, the 2016-17 ending balance in the fund increased by $73.5 million. The Committee could use some of the increase in the fund balance to reduce borrowing in the state highway programs. The Committee could also reduce the recommended funding to programs funded with transportation fund revenues and use those funds to reduce the level of borrowing recommended by the Governor. The Committee has received several LFB Issue Papers on DOT programs funded with segregated revenues, most of which offer reductions to existing funding or reductions to the Governor's recommended funding increases as alternatives. Each of those papers discusses the merits of funding those programs and the issues related to not providing the funding at this time. If any of those funding reductions are adopted, it would free up some additional transportation fund revenues that could be used in lieu of borrowing. However, while using some of the projected 2016-17 ending fund balance or making reductions in other DOT programs could allow some reductions in borrowing, those actions alone would not be substantial enough to alleviate the long-term funding concerns related to the transportation fund.

16. Finally, the Committee could reduce bonding by decreasing the size of the state highway program. This office has also prepared Issue Papers relating to the highway-related program funding under the bill, which lay out the effect of providing, or not providing, the funding level recommended by the Governor. However, in testimony before the Committee, the DOT Secretary warned that if highway program bonding is reduced, without a corresponding increase in other transportation revenues, the result will be delays in current and future projects in all areas of the highway program. He further noted that the overall condition of the state's highway system will continue to deteriorate marginally even at the funding levels recommended by the Governor for 2015-17. Reducing the size of the state highway program funding in the biennium could provide some debt service relief to the fund, but as the DOT Secretary warned, it could lead to an acceleration in the deterioration of the highway system and lead to even greater costs in the future.

17. In summary, if the Committee believes that the borrowing level recommended by the Governor is too high, the Committee could make some reduction in borrowing by using the balance in the transportation fund or by reducing other DOT programs. Not without consequences, the

Committee could also reduce the recommended spending for the state highway program, which would provide some debt service relief to the fund in the 2015-17 biennium and beyond. However, if the Committee intends to provide for the long-term sustainability of the transportation fund, the Committee will likely need to address the revenue side of the transportation fund's condition statement.

Pledge of Motor Vehicle Fuel Taxes to the Transportation Revenue Bond Program

18. As mentioned earlier, the transportation revenue bond program is just one component of the state's overall borrowing for transportation purposes. As of December, 2014, the state had just over $2 billion in outstanding principal owed on transportation revenue bonds.

19. There are two principal measures that are used to evaluate the financial sufficiency and stability of the state's transportation revenue bond program in the bond market: the debt service coverage ratio and the additional bonds test. Both ratios essentially measure the degree to which pledged vehicle registration revenues are sufficient enough to pay annual debt service obligations. The coverage ratio is an expression of the pledged revenues collected in a certain period, divided by the revenue bond debt service payments in the same period. To illustrate, in a particular year if pledged revenues are $400 million and debt service is $100 million, the coverage ratio will be 4.0:1 (a four-to-one ratio). The coverage ratio can impact how the bond market reacts to the bonds.

20. The second measure, the additional bonds test, is essentially the lowest allowable coverage ratio at which the state could continue to issue those types of bonds. This test is included in the covenants of each bond issue and can have a far more detrimental impact on a revenue bond program than the coverage ratio. The additional bonds test under the state's transportation revenue bond program states that no additional transportation revenue bonds may be issued by the state unless the coverage ratio on bonds exceeds 2.25:1 for at least 12 consecutive months of the preceding 18 months. If this test is not met, the revenue bonds cannot be issued, and the use of revenue bonds as a mechanism to fund the state's highway program is halted until the test is met.

21. Table 5 shows the amount of pledged revenues, revenue bond debt service, and the coverage ratios over the past several years and projections through 2018-19 under AB 21/SB 21 using the current law pledge of revenues.

TABLE 5

Transportation Revenue Bond Debt Service Coverage Ratio Under AB 21/SB 21 Bonding Level and Current Law Pledge of Revenues ($ in Millions)

Year	Existing Pledged Revenues	Debt Service	Existing Ratio
2004-05	$433.2	$122.0	3.6:1
2005-06	461.9	143.7	3.2:1
2006-07	452.3	152.7	3.0:1
2007-08	538.3	167.4	3.2:1
2008-09	600.5	169.9	3.5:1
2009-10	610.4	170.6	3.6:1
2010-11	603.5	179.6	3.4:1
2011-12	634.1	194.5	3.3:1
2012-13	632.2	200.8	3.1:1
2013-14	658.7	215.8	3.1:1
2014-15*	651.5	229.5	2.8:1
2015-16**	670.9	242.1	2.8:1
2016-17**	672.8	276.3	2.4:1
2017-18**	691.7	307.4	2.3:1
2018-19**	692.9	337.3	2:1:1

*Estimated.
**Estimated based on bonding under AB 21/SB 21, and 2016-17 level of bonding beyond the 2015-17 biennium.

22. The coverage ratio has been trending downward, both because of projected increases in revenue bond debt service and relatively slow growth in vehicle registration fees. Under the existing pledge and the Governor's bonding recommendations, the state would not be in jeopardy of being precluded from issuing additional revenue bonds through the 2015-17 biennium, since the coverage ratio is projected to exceed 2.25:1. However, under this scenario, the additional bonds test may not be met as early as 2018-19.

23. The Governor's recommendations provide DOT the authority to pledge up to 50% of the state's motor vehicle fuel tax revenues ($512.5 million in 2015-16 and $516.3 million in 2016-17) to support the transportation revenue bond program. Table 6 shows the projected coverage ratio under the Governor's recommendations. The debt service amounts included in the table are based on the assumption that the Governor's recommended increases in transportation revenue bonding for the 2015-17 biennium are approved and that the level bonding for 2016-17 under the Governor's recommendations are carried forward to the 2017-19 biennium.

TABLE 6

Projected Transportation Revenue Bond Debt Service Coverage Ratio
Under AB 21/SB21 Bonding Level and Expansion of Pledged Revenues
($ in Millions)

Year	Proposed Pledged Revenues	Estimated Debt Service*	Projected Ratio
2015-16	$1,183.4	$242.1	4.9:1
2016-17	1,189.1	276.3	4.3:1
2017-18	1,207.3	307.4	3.9:1
2018-19	1,208.0	337.3	3.6:1

*Estimated based on bonding under AB 21/SB 21, and 2016-17 level of bonding beyond the 2015-17 biennium.

24. As shown in Table 6, increasing the amount of existing transportation fund revenues pledged to the transportation revenue bond program makes certain that the debt service coverage ratio is sufficient so that the existing additional bonds test is met going forward. However, the ratio would be projected to decline significantly by 2018-19, and would likely continue to decline further if the 2016-17 base level of revenue bonding ($435 million per year) under AB 21/SB 21 would continue to be issued each year into the 2019-21 biennium, and beyond.

25. The Budget in Brief indicates that the pledge of motor vehicle fuel tax revenues for the transportation revenue bond program will increase the debt service coverage in the program, which will likely lead to a higher bond rating. The Governor also indicates that the pledge will be structured in a way that prevents motor fuel tax collections from being used for debt service. This occurs because while the pledge of motor vehicle fuel tax revenues may be needed to meet the additional bonds test, revenues from the existing pledged revenues are projected to remain two times greater than annual debt service through 2018-19 (see Table 5). [Alternative #A1]

26. Currently, the state's transportation revenue bonds are rated AA+ or AA2 by three rating agencies and AAA by a fourth agency. DOA Capital Finance indicates that even with the additional pledged revenues, in order to achieve an AAA bond rating for the transportation revenue bond program, the state may have to change the covenants of the program to increase the additional bonds test to at least a 3:1 ratio. They note in today's low interest rate bond market, increasing the program's rating to AAA among all ratings agencies could reduce the cost of borrowing in the near term by 0.1%, or $64,100 annually on every $100 million borrowed. However, these debt service reductions would not be significantly different from the reductions the state would get if it issued general obligation bonds instead of transportation revenue bonds under current law.

27. Pledging half of the state's annual motor vehicle fuel tax revenues would result in an additional $512.6 million in 2015-16 and $516.3 million in 2016-17 being available as pledged revenues to the revenue bond program. It would also increase the revenue bond program's overall capacity to borrow or its "credit limit," thus allowing the program to support more borrowing.

Some concern exists that increasing the pledge could simply allow the state to borrow more and exacerbate, rather than solve, the long-term financial concerns of the transportation fund. Table 7 shows the amount of additional borrowing that could be supported in 2016-17, and beyond, under the current pledge of revenues, using a 2.25:1 additional bonds test, and under Governor's expanded pledge recommendations, using either a 2.25:1 or a 3:1 additional bonds test.

TABLE 7

Additional Debt Service and Bonding Capacity
Under Current Law and AB 21/SB 21
($ in Millions)

Test	Pledged Revenues	Additional Debt Service	Additional Bonding Capacity
2.25:1 (Current Law Pledge)	$672.8	$22.7	$316.9
2.25:1 (Bill Pledge)	1,189.1	252.2	3,520.0
3:1 (Bill Pledge)	1,189.1	120.1	1,675.0

28. General obligation bonds are not subject to a coverage ratio or an additional bonds test. General obligation bonds are ultimately supported by the general taxing authority of the state. However, initially, transportation fund-supported, general obligation bonds are specifically supported by all the revenues to the transportation fund. Because they are ultimately backed by the full taxing power of the state, unless the ratings on the bonds are substantially different, general obligation bonds tend to carry lower true interest costs than bonds issued under revenue bond programs. Currently, state general obligation bonds carry a rating of AA, with true interest costs that are typically at or below the true interest cost of the state's transportation revenue bonds. Deleting the expansion of pledged revenues would essentially require future transportation bonding to either be reduced or rely more heavily on general obligation bonds. [Alternative #A2]

29. Under the Governor's recommendations, transportation revenue bonds, for the first time, would be authorized for the southeast Wisconsin freeway megaprojects program ($392.1 million). In the past, only general obligation bonds have been provided for this program. Under the state's budgeting and accounting system, proceeds from transportation revenue bonds are deposited to SEG-S appropriations for either major highway development or capital building projects and appropriated for those program purposes. This establishes a base level appropriation authority for those programs going forward, even though the bonding necessary to fund the base appropriation levels in the subsequent biennium would need separate authorization by the next Legislature. Conversely, general obligations bond proceeds are not deposited to a specific program appropriation. Rather, they are deposited to the state's capital improvement fund. Therefore, no base level funding is established for the specific program purposes for which the general obligation bonds are issued. The DOT Secretary indicated in testimony that by providing revenue bonding authority to the southeast Wisconsin freeway megaprojects program, the Governor's recommendations would benefit that program by establishing a base level of funding ($99,446,900 SEG-S) for future biennia. [Alternative #B1]

30. The Committee could choose to continue the current policy of only providing general obligation bonding for the southeast Wisconsin freeway megaprojects program. This would reduce transportation revenue bonds by $392.1 million, with a corresponding increase in general obligation bond authority for that program. This would eliminate the $99.4 million in base bonding reflected in the SEG-S appropriation in 2016-17. This would also reduce the level of debt service from the transportation revenue bond program by $8.1 million in 2015-16 and $23.7 million in 2016-17. Debt service on SEG-supported, general obligation bonds would increase by similar amounts in those years. Such a reduction in transportation revenue bond debt service would result in a higher coverage ratio on those bonds compared to the bill. It is estimated that the coverage ratio on the transportation revenue bonds, using only the current law pledged revenues, would be at or above 2.32:1 through the end of 2018-19 under this alternative, but would be projected to go below the current additional bonds test level of 2.25:1 in the 2019-21 biennium, even with the deletion of base level revenue bonding going forward for the southeast Wisconsin freeway megaprojects program. However, this alternative would reduce the need to expand the pledge for the revenue bond program to include 50% of motor vehicle fuel tax revenues at this time. [Alternative #B2]

ALTERNATIVES

A. Pledge of Motor Vehicle Fuel Tax Revenues

1. Approve the Governor's recommendation to provide DOT the authority to pledge the revenue derived from 50% of the state's motor vehicle fuel tax ($512.5 million in 2015-16 and $516.3 million in 2016-17) to support the transportation revenue bond program.

2. Delete provision (the existing pledge of registration and various other related fees would remain).

B. Southeast Wisconsin Freeway Megaprojects Bonding

1. Approve the Governor's recommendation to provide $392,093,800 in transportation revenue bonding for the southeast Wisconsin freeway megaprojects program and to create a new, SEG-S appropriation to expend the bond proceeds (pledged revenue would pay the debt service on the bonds and the coverage ratio and additional bonds test would apply).

2. Delete the Governor's recommendation and, instead, provide $392,093,800 in transportation fund-supported, general obligation bonding for the southeast Wisconsin freeway megaprojects program (the transportation fund would pay the debt service on the bonds). Increase estimated transportation fund revenues by $8,121,000 in 2015-16 and $23,725,000 in 2016-17 and increase SEG debt service by corresponding amounts to reflect the change in the type of bonds. In addition, reduce funding by $292,646,900 SEG-S in 2015-16 and $99,446,900 SEG-S in 2016-17 to reflect the deletion of revenue bonding for the southeast Wisconsin freeway megaprojects program (the general obligation bonding does not appear in the appropriations schedule).

ALT B2	Change to Bill
SEG-REV	$31,846,000
SEG	$31,846,000
SEG-S	- 392,093,800
Total	- $360,247,800

Prepared by: Al Runde