



Transportation Finance

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Prepared by

Jon Dyck

Wisconsin Legislative Fiscal Bureau
One East Main, Suite 301
Madison, WI 53703

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The principal funding sources for the state's transportation programs can be divided into three categories: the state transportation fund, bond proceeds, and federal funds. This paper discusses these three sources of funding separately and provides data on the amounts provided from each source. However, since the Legislature uses the three transportation funding sources somewhat interchangeably in making spending decisions, an analysis of expenditures that examines only one source in isolation may not provide a complete picture of spending decisions. In the final section of this paper, therefore, additional information is provided to show how the total of all of the three sources is allocated among various types of programs.

Throughout this paper, unless otherwise specified, figures are provided for the 2003-04 fiscal year, since certain data for 2004-05 remained incomplete at the time of publication. In particular, the amount of federal aid that the state will receive in federal fiscal year 2005 remains uncertain.

Transportation Fund

History of the Fund and Its Use in Budgeting for Transportation

The state transportation fund is the largest source of funding for transportation programs, with annual revenues and expenditures of about \$1.4 billion in the 2003-04 fiscal year. The transportation fund was created by the 1977-79 biennial budget act, although the basic components of the new fund were substantially similar to its predecessor, the highway fund, which was created

in 1945. The new fund combined the revenue sources from the highway fund, which included the motor fuel tax, vehicle registration and titling fees, driver license fees, motor carrier fees, and other miscellaneous fees collected by the Department of Transportation (DOT), with revenues from the ad valorem property tax on commercial airlines and aircraft registration fees. A subsequent act of the 1977-79 session added ad valorem property taxes on railroads to the list of revenues deposited into the transportation fund, and only minor changes to the fund's makeup have been made since then.

Although the addition of the aviation and railroad taxes and fees to the fund added relatively small amounts of revenue to what had been the highway fund, the creation of a "unified" transportation fund in 1977 established a principle of transportation finance that continues today. That is, the Legislature now typically makes budgetary decisions for all modes of transportation without regard to the precise amounts collected from particular transportation taxes and fees. For instance, the Legislature makes appropriations from the transportation fund for airport improvements based upon an assessment of how much is appropriate for that purpose instead of how much revenue was collected from the aviation taxes and fees. Prior to the creation of the transportation fund, revenues from aviation taxes and fees were credited to a program revenue account and, therefore, funding for airport improvement projects was limited to the amount that was collected from these sources. Currently, transportation budgetary decisions for all modes of transportation and other DOT functions, such as the Division of Motor Vehicles, the State Patrol, and general administration, are generally made based upon this "transportation system" principle,

although there remains a certain degree of balance between revenue sources and related expenditures.

Overview of Transportation Fund Revenues

Table 1 shows the revenues collected from the major categories of transportation fund revenues for 2003-04. In the category called "vehicle registration fees," the total amount collected by the state from vehicle registration and other vehicle-related fees is shown, even though only a portion of these revenues are actually deposited in the transportation fund (73% in 2003-04). The remainder is used, prior to being deposited in the fund, to pay debt service and administrative costs associated with bonds issued in the state's transportation revenue bond program. The full amount of registration revenues (often called "gross registration revenue") is shown here to provide a complete picture of the revenue collected by the state from transportation-related taxes and fees.

As can be seen from this table, a large majority of the gross transportation fund revenues come from just two categories: motor vehicle fuel taxes and vehicle registration and other vehicle-related fees. Although all states tend to rely heavily on these two sources of revenue for financing

transportation expenditures, many other states, unlike Wisconsin, also rely on highway tolls and general fund revenues to finance certain transportation programs. Consequently, Wisconsin's reliance on these two sources is a hallmark of financing transportation in this state.

Table 1: 2003-04 Transportation Fund Revenue Collection by Source

	Amount	Percent of Total
Motor Vehicle Fuel Tax	\$934,604,700	64.9%
Vehicle Registration Fees	414,213,900	28.8
Driver License Fees	29,936,500	2.1
Other Motor Vehicle Fees	21,931,600	1.5
Aeronautical Taxes and Fees	9,924,500	0.7
Railroad Ad Valorem Tax	11,923,900	0.8
Motor Carrier Fees	2,088,200	0.1
Investment Earnings	2,714,300	0.2
Miscellaneous Revenue	<u>13,074,500</u>	<u>0.9</u>
Total	\$1,440,412,100	100.0%

Table 2 shows the amounts of total transportation fund revenues collected since 1991-92, and the annual percentage growth of those amounts. The final two columns show significant increases or modifications to the taxes or fees (over

Table 2: Gross Transportation Fund Revenue History

Fiscal Year	Total Gross Revenue	Percent Increase	Major Tax or Fee Increases or Modifications	Est. Revenue from Changes (\$ in Millions)
1991-92	\$865,551,000		9/1/91: Auto and truck registration increases	\$47.8
1992-93	894,817,100	3.4%	Additional increase associated with 9/1/91 changes	21.9
1993-94	957,573,900	7.0		
1994-95	993,541,200	3.8	7/1/94: Fuel tax collection procedure changes	26.6
1995-96	1,039,786,400	4.7		
1996-97	1,047,394,300	0.7		
1997-98	1,141,690,400	9.0	Various dates: Deposit supplemental title fee in transportation fund instead of environmental fund; fuel tax rate and registration fee increases; fuel tax indexing formula change	48.0
1998-99	1,235,125,500	8.2	Additional increase associated with 1997-98 changes	35.0
1999-00	1,271,083,000	2.9		
2000-01	1,283,376,900	1.0		
2001-02	1,337,655,400	4.2		
2002-03	1,386,588,400	3.7		
2003-04	1,440,412,000	3.9	10/01/03: Auto registration increase	25.6

\$10 million in annual revenues) that have accounted for some of the growth during the years in which they were enacted (excluding the annual indexing of the motor vehicle fuel tax, which is described later in this paper). The enactment of a tax or fee increase affects the growth rates in the year that the increase becomes effective, but in many cases the growth rate may also be affected in the second fiscal year following enactment. This is because the increase may be in effect for only part of the first year (if it becomes effective after July 1), while the following year will reflect a full year of increased revenues. The table shows estimated increases in the year that the changes were enacted (based upon estimates made at the time of enactment) and also any additional increase in the following year.

Transportation Fund Taxes, Fees, and Other Revenue Sources

This section of the paper describes each of the categories of transportation taxes and fees that are deposited in the transportation fund.

Motor Vehicle Fuel Tax. The motor vehicle fuel tax is the largest source of revenue in the transportation fund, accounting for 64.9% of gross revenues in 2003-04. The tax is imposed on a per-gallon basis on gasoline, diesel, and alternative fuels (such as compressed natural gas and liquid propane gas) used in motor vehicles. The fuel tax rate is determined by a formula that annually adjusts the rate from the prior year based upon the percentage growth in the consumer price index for urban consumers, as determined by the U.S. Department of Labor. On April 1, 2004, the rate was set at 29.1 cents per gallon and is projected to increase to 29.6 cents per gallon on April 1, 2005. (Alternative fuel tax rates are currently 21.3 cents per gallon for liquefied petroleum gas and 23.3 cents per gallon for compressed natural gas.) For a more complete discussion of the motor vehicle fuel tax, see the Legislative Fiscal Bureau's informational paper entitled, "Motor Vehicle Fuel and Alternate Fuel Tax."

Vehicle Registration Revenues. The category identified as "Vehicle Registration Revenues" in Table 1 is primarily composed of revenue from vehicle registration fees (generally about 85% to 90% of the total), but also includes other vehicle-related fees. The most significant of these other fees include title transfer fees (\$26 for most transactions, not including the \$9 environmental impact title fee, which is deposited in the environmental fund), the fee for late registration renewal (\$10), special license plate issuance fees (\$15), and registration and title counter service fees (\$3 or \$5, depending upon the type of transaction).

Wisconsin statutes create many different vehicle classifications for the purposes of vehicle registration. The fee for automobiles (a vehicle category that is defined to include sport utility vehicles and vans used primarily for passengers) was last raised on October 1, 2003, from \$45 to \$55. The fees for trucks and several other types of vehicles are based upon the weight of the vehicle. For most types of trucks and trailers, there are 19 different weight categories with fees that range from \$48.50 for a truck that is 4,500 pounds or less, to \$1,987.50 for a truck-semitrailer combination that is between 76,000 pounds and 80,000 pounds. Certain trucks that are used in agriculture or forestry, although also registered on the basis of weight, pay a fee that is less than the fee for other trucks. The fee for farm trucks, for instance, is 25% of the fee for a nonfarm truck of the same weight.

The truck fees were last raised on December 1, 1997, when all the amounts in the fee schedule were increased by 7.5%. Table 3 shows the history of the last several registration fee changes for automobiles and for trucks. The fee for the heaviest truck category, 80,000 pounds, is shown as an example, although in each instance in which fees were raised during the period shown, the fees for all or virtually all of the weight classifications were increased.

Driver License Fees. Driver license revenues includes the fees for original and renewal driver

Table 3: Most Recent Changes to Vehicle Registration Fees

Automobile		
Date of Change	Old Fee	New Fee
September 1, 1981	\$18.00	\$25.00
September 1, 1991	25.00	40.00
December 1, 1997	40.00	45.00
October 1, 2003	45.00	55.00
80,000 Pound Truck		
Date of Change	Old Fee	New Fee
January 1, 1982	\$1,620.00	\$1,700.00
September 1, 1991	1,700.00	1,850.00
December 1, 1997	1,850.00	1,987.50

licenses, endorsements, and identification cards, but also other license-related fees, such as duplicate license fees, fees for late renewal, and reinstatement fees for licenses that have been suspended or revoked. Licenses for regular automobiles and light trucks ("Class D") and for commercial motor vehicles are generally valid for eight years. The fee for a Class D license is \$24, while the fee for a commercial driver's license is \$64.

Other Motor Vehicle Fees. The most significant sources of revenue in the other motor vehicle fees revenue category are the fee for driver license abstracts (primarily sold to insurance companies for use in underwriting) and the vehicle rental fee. The fee for driver license abstracts is \$5 per record for most types of records. The vehicle rental fee is a tax on the gross receipts from the rental of automobiles, mobile homes, motor homes, camping trailers, and limousines that are rented for a period of 30 days or less. The rate of the tax is 5% for limousines and 3% for all of the other affected vehicle types.

Aeronautical Taxes and Fees. The primary source of aviation-related revenue is the ad valorem tax on commercial airline property. Commercial airlines are exempt from local property taxes and, instead, are taxed under the state's ad valorem tax. The

property of airlines is valued on a systemwide basis, and a portion of that value is allocated to Wisconsin based on a statutory formula intended to reflect each airline's activity in the state. The resulting value is taxed at the statewide average tax rate for property subject to local property taxes, net of state tax credits. In 2004, there were 23 airlines that paid this tax.

The 2001-03 biennial budget act created an exemption, beginning in 2001, from the ad valorem tax for any airline that operates a hub in the state. For the purposes of this provision, an airline hub is defined as either of the following: (a) a facility from which an air carrier company operated at least 45 common carrier departing flights each weekday in the prior year and from which it transported passengers to at least 15 nonstop destinations or transported cargo to nonstop destinations; or (b) an airport or any combination of airports in Wisconsin from which an air carrier company cumulatively operated at least 20 common carrier departing flights each weekday in the prior year, if the air carrier company's headquarters is in the state. Currently, Midwest Airlines and Air Wisconsin are the only two carriers that qualify for the exemption. In November, 2003, however, the hub airline tax exemption was ruled unconstitutional in Dane County Circuit Court on the grounds that it violates the commerce clause of the United States Constitution. At the time of publication, this decision was being considered by the Court of Appeals.

In 2003-04, the ad valorem tax on commercial airline property accounted for about 83% of the revenue in the aeronautical taxes and fees category shown in Table 1. The remaining revenue in this category comes from two general aviation-related sources. First, aircraft that are not subject to the ad valorem tax must pay an aircraft registration fee, which ranges from \$60 for two years for an aircraft that is 2,000 pounds or less to \$3,125 annually for an aircraft over 100,000 pounds. Second, general aviation fuel is subject to a fuel tax of six cents per gallon.

Railroad Ad Valorem Tax. As with airline property, property owned by railroads is exempt from local property taxes and is subject to a state ad valorem tax. The value of railroad companies, as with airlines, is determined on a systemwide basis, and then a portion is allocated to Wisconsin based upon each railroad's activity in the state. As with the airline ad valorem tax, the Wisconsin portion of the railroad's property is taxed at the statewide average net tax rate. In 2004, there were 11 railroad companies that paid the tax.

Motor Carrier Fees. Commercial motor carriers are required to file proof of federal motor carrier registration and proof of insurance prior to operating in the state, unless they have filed such proof with a different state that participates (as does Wisconsin) in the base-state motor carrier registration system. There is a \$5 filing fee per vehicle for this registration. Under the base-state system, revenue collected by a motor carrier's base state is shared with other states in which the motor carrier operates. The filing fees received by motor carriers filing in Wisconsin and revenue received from other states for other motor carriers that operate in the state are tracked in the motor carrier fees category.

Investment Earnings. These are earnings on the balances maintained in the transportation fund. These balances are pooled with balances in other funds and invested on a short-term basis by the State Investment Board. The proportionate earnings attributable to the transportation fund's balances are credited to the fund on a monthly basis.

Miscellaneous Revenue. Other revenues collected by the Department include revenue from sales of surplus property, motor vehicle dealer license fees, salvage vehicle inspection fees, real estate lease income (primarily from leasing parking space), oversize or overweight truck permit fees, and outdoor advertising permit fees.

Transfers from Other Funds. In the 2003-05

biennium there are two transfers into the transportation fund from other funds (although neither one occurs in 2003-04, so this category is not shown in Table 1). One is a transfer from the general fund to partially compensate the transportation fund for revenue lost due to the airline hub ad valorem tax exemption. When the Legislature created the exemption, the decision was made to transfer an amount of revenue from the general fund to the transportation fund, beginning in 2004-05, equal to the amount that any exempt airlines paid in the last year before becoming exempt. Based upon the combined amount paid by Midwest Airlines and Air Wisconsin in 2000, the last year before the exemption took effect, the transfer in 2004-05 from the general fund is \$2,530,400.

The other transfer is from the petroleum inspection fund. In the 2003-05 biennial budget act, the Legislature created an appropriation from the petroleum inspection fund to transfer revenue from that fund to the transportation fund. In 2004-05, the first year that a transfer is made, the amount transferred is \$6,321,700. The intent of this provision was to fund a portion of the cost of the vehicle emissions inspection program in southeast Wisconsin with revenue from the petroleum inspection fund. This revenue is deposited in the transportation fund, but there is no direct tie to the appropriation for the emissions inspection program.

Allocation of Transportation Fund Revenue

As noted at the beginning of this paper, the allocation of transportation fund revenue alone between various programs should not be used as an indicator of overall transportation budgetary decisions since bonds and federal aid also play an important role in financing transportation. However, the allocation of transportation fund revenue is shown in Table 4 because it demonstrates the significant role that the transportation fund played in balancing the general fund budget during the biennium.

Table 4: Allocation of Transportation Fund Revenue Among All Functions

	2003-04 Allocation		Prior Four-Year Average	
	Dollar Amount	Percentage	Dollar Amount	Percentage
Local Road Aids	\$419,768,600	29.0%	\$399,911,600	30.4%
General Fund Programs *	370,135,000	25.6	0	0.0
Highway Programs	175,328,400	12.1	473,104,200	36.0
Debt Service	120,527,100	8.3	96,572,100	7.3
Mass Transit Aids	108,065,600	7.5	101,925,200	7.7
Division of Motor Vehicles	81,498,100	5.6	78,891,500	6.0
General Administration	76,477,000	5.3	71,436,300	5.4
State Patrol	50,329,300	3.5	46,270,300	3.5
Non-DOT Programs**	20,594,300	1.4	18,296,900	1.4
Railroads, Harbors, and Airports	18,971,700	1.3	20,113,600	1.5
Other Programs***	<u>5,876,400</u>	<u>0.4</u>	<u>8,691,300</u>	<u>0.7</u>
Total	\$1,447,571,500	100.0%	\$1,315,213,000	100.0%

*Includes appropriations for shared revenue and K-12 education aids as well as a transfer to the general fund.

**Includes transfers to the conservation fund for the motorboat, snowmobile, and all-terrain vehicle accounts, and Department of Revenue programs for administering the transportation fund taxes, but does not include the programs listed under "General Fund Programs."

***Includes the transportation economic assistance program, traffic safety programs, and other smaller programs.

The 2003-05 biennial budget act provided a total of \$675.3 million in transportation fund revenue for general fund purposes. Of this amount, \$175.0 million (\$100.0 million in 2003-04 and \$75.0 million in 2004-05) was a direct transfer from the transportation fund to the general fund, \$400.0 million (\$230.0 million in 2003-04 and \$170.0 million in 2004-05) was an appropriation from the transportation fund for the shared revenue program, and \$100.0 million (\$40.0 million in 2003-04 and \$60.0 million in 2004-05) was an appropriation for K-12 education aids. (The remaining \$0.3 million was a separate fund transfer unrelated to the larger transfer.) In order to make these funds available, the act significantly reduced the transportation fund revenue provided to the state highway construction programs, relative to the previous fiscal year, and partially replaced those funds with general obligation bonds (discussed later in this paper under the section on bonding). Consequently, the percentage of transportation fund revenue allocated to state highway programs is far less during the 2003-05

biennium than in previous years. To show the effect that this action had on the allocation of transportation fund revenue, relative to prior years, Table 4 shows both the 2003-04 allocation and the average allocation during the previous four fiscal years.

Transportation Bonds

Bonds were first authorized directly by the state for highway, bridge, and administrative facility projects in 1969. (Prior to that time, counties could issue bonds for work on state highways and were reimbursed by the state for the debt service costs.) Originally, the bonds authorized for highways and bridges were general obligation bonds, meaning that the state pledges the "full faith, credit, and taxing power" of the state for the payment of debt service. Beginning in 1984, however, the state stopped using general obligation bonds for these

purposes and began authorizing transportation revenue bonds for major highway development and administrative facility projects. Unlike general obligation bonds, revenue bonds are not backed by the full faith, credit, and taxing power of the state, but instead, the source of debt service payments is limited to a specific fund consisting of fees, penalties, or excise taxes set up for that purpose. In the case of transportation revenue bonds, this fund consists of vehicle registration fees and other vehicle-related revenues, such as title fees. These are sometimes called "pledged" revenues since the state pledges the collections to a third-party trustee for the payment of debt service. The trustee processes the receipts, makes the debt service payments, and then returns the balance of the revenues to the state for deposit in the transportation fund.

The relationship between the amount of pledged revenues received during a given time period and the amount of debt service payments in that period is called the "coverage ratio." 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 preceding 18 months (that is, pledged revenues are 2.25 times greater than the amount needed to pay debt service costs). However, it is generally considered 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.

Bonding Level

Table 5 shows the amount of revenue bonds provided for major highway development and

Table 5: Revenue Bond Appropriations and Debt Service

Fiscal Year	Revenue Bond Appropriations			Revenue Bond Debt Service
	Major Hwy. Development	Admin. Facilities	Total	
1995-96	\$108,534,800	\$2,000,000	\$110,534,800	\$58,528,800
1996-97	110,535,300	2,785,400	113,320,700	68,521,800
1997-98	110,535,300	2,785,400	113,320,700	71,933,500
1998-99	110,535,300	2,785,400	113,320,700	80,940,500
1999-00	119,629,900	2,785,400	122,415,300	84,173,000
2000-01	119,907,200	2,785,400	122,692,600	89,076,000
2001-02	127,035,100	4,377,300	131,412,400	87,948,000
2002-03	130,139,100	6,000,000	136,139,100	101,129,300
2003-04	136,167,400	6,000,000	142,167,400	113,087,100
2004-05 *	136,804,400	6,000,000	142,804,400	137,445,300
Average Annual Growth Rate			2.9%	10.0%

*Debt service amount shown for 2004-05 is an estimate.

administrative facilities projects over a ten-year period (including projected amounts for 2004-05), as well as the amount of revenue bond debt service paid during that period. Over this period, appropriations of transportation revenue bond proceeds have grown at an average, annual rate of 2.9%, while debt service grew at an average, annual rate of 10.0%. The rapid growth in debt service, relative to the growth in bonding usage, is partly due to the rapid growth in the use of bonding in the period prior to the period shown in the table. For instance, the amount of bonding authorized for the major highway development program nearly doubled in two years, from \$54.8 million in 1989-90 to \$104.7 million in 1991-92.

The more rapid growth in debt service is also explained by the fact that, since the state has continued to use bonding each year since the beginning of the program, debt service is being paid on successively more years of previous issuance. To illustrate this point with an example, if the state begins a bond program by issuing bonds at \$50 million in a certain year and maintains that level annually thereafter, the amount of annual debt service paid on these bonds will continue to increase each year as the state pays on successively more years of bond issuance. Eventually, annual

debt service will exceed annual bond usage, since debt service includes both principal repayment and interest. Generally, the level of debt service will continue to rise until the state is retiring bonds from the first years of issuance at the same rate that new bonds are issued. Throughout the period shown in Table 5, the state has been in a period of "ramping up," both in terms of the annual amount of bonds issued and the number of years of bond issuance for which debt service must be paid.

Debt service increases have had an impact on the transportation revenue bond coverage ratio which, as noted above, is the ratio by which revenues pledged for the payment of debt service exceeds the amount needed to pay debt service. If debt service payments grow at a faster rate than the growth in pledged revenue, then the coverage ratio will go down. Table 6 shows the coverage ratios over a ten-year period, including an estimate of the coverage ratio for 2004-05. As the table shows, coverage ratios have generally gone down over this period.

Table 6: Revenue Bond Coverage Ratios (\$ in Millions)

	Revenue Bond Debt Service	Pledged Revenue	Coverage Ratio
1995-96	\$58.5	\$248.7	4.3:1
1996-97	68.5	254.2	3.7:1
1997-98	71.9	280.6	3.9:1
1998-99	80.9	294.8	3.6:1
1999-00	84.2	310.8	3.7:1
2000-01	89.1	313.9	3.5:1
2001-02	87.9	323.8	3.7:1
2002-03	101.1	320.3	3.2:1
2003-04	113.1	416.0	3.7:1
2004-05*	137.4	442.8	3.2:1

* Figures for 2004-05 are estimates.

However, the coverage ratio for 2003-04 is higher than in 2002-03, despite the fact that debt service increased by nearly 12% in 2003-04 from the previous year. There are two principal reasons for this. First, the 2003-05 budget act increased the registration fee for automobiles by \$10, from \$45 to

\$55, effective October 1, 2003, raising pledged revenues by about \$25 million in 2003-04. Second, the budget act also added several types of fees to the list of revenues that are pledged to the payment of debt service, such as vehicle titling fees, special license plate fees, and late registration renewal fees. This decision increased pledged revenues by about \$70 million on an annualized basis.

The use of general obligation bonds on transportation projects adds to the state's transportation-related debt service burden, although this is not reflected in the coverage ratio measure. This is because debt service on general obligation bonds issued for transportation projects is not paid from pledged revenues, but, instead, is paid from a sum sufficient transportation fund appropriation. Although the state went away from the use of general obligation bonds for major highway development projects and administrative facilities in 1984, the state has, for several years, used general obligation bonds for harbor and railroad projects. In the 2003-05 biennium, \$4.5 million in general obligation bonding authority was provided for railroad rehabilitation and track acquisition projects and \$3.0 million was provided for harbor assistance grants to local governments.

The 2003-05 biennial budget, as noted earlier in this paper, also provided a significant amount of general obligation bonds for the state highway rehabilitation and southeast Wisconsin freeway rehabilitation programs. Table 7 shows the total funding provided for these two programs, by fund source, for both fiscal years of the biennium and, for the purposes of comparison, for the previous fiscal year, 2002-03. The percentage of the total budget for these programs that was provided in general obligation bonds is also shown.

The debt service on these bonds is to be paid from a transportation fund appropriation during the 2003-05 biennium, but, under current law, is scheduled to be paid from the general fund thereafter. In 2003-04, debt service on these bonds was \$2.9 million, but is estimated to increase to

Table 7: Use of General Obligation Bonds for Highway Programs

	2002-03	2003-04	2004-05
State Highway Rehabilitation			
Transportation Fund	\$251,979,800	\$9,781,800	\$37,678,300
Federal Funds	304,045,300	274,826,900	286,983,000
Gen. Obligation Bonds	<u>0</u>	<u>253,900,000</u>	<u>230,000,000</u>
Total	\$556,025,100	\$538,508,700	\$554,661,300
G.O. Bonding Percentage	0.0%	47.1%	41.5%
S.E. WI Freeway Rehabilitation			
Transportation Fund	\$40,207,900	\$0	\$20,000,000
Federal Funds	55,067,800	71,317,600	88,085,600
Gen. Obligation Bonds	<u>0</u>	<u>15,924,200</u>	<u>65,656,200</u>
Total	\$95,275,700	\$87,241,800	\$173,741,800
G.O. Bonding Percentage	0.0%	18.3%	37.8%

(with the temporary exception of 2004-05, as discussed above) is generally a small amount in comparison with transportation revenue bond debt service, it is part of the state's total transportation debt service burden. Unlike revenue bond coverage ratios, which do not take this debt service into consideration, another measure that can be used to monitor the effect of bond usage on transportation finance is the percentage of total transportation fund revenues that must be devoted to paying total debt service on both types of bonds. Table 8 shows this measure of debt service for the fiscal years since 1995-96, including a projection for 2004-05.

Table 8: Debt Service as a Percentage of Gross Transportation Fund Revenue (\$ in Millions)

Fiscal Year	Total Debt Service	Gross Revenues	Debt Service as % of Revenues
1995-96	\$67.3	\$1,039.8	6.5%
1996-97	75.6	1,047.4	7.2
1997-98	78.7	1,141.7	6.9
1998-99	87.4	1,235.1	7.1
1999-00	90.3	1,271.1	7.1
2000-01	94.5	1,283.4	7.4
2001-02	93.3	1,337.7	7.0
2002-03	105.8	1,386.6	7.6
2003-04	119.7	1,440.4	8.3
2004-05	185.9	1,495.7	12.4

\$43.6 million in 2004-05. As debt service on the full amount of bonds comes due, these payments, which will be the responsibility of the general fund, will increase to an estimated \$61.3 million. Since the bonds issued for the state highway rehabilitation program (which make up over 85% of the total) are 10-year bonds, debt service will decline substantially after these bonds are retired and stay at this lower level until the 20-year bonds used in the southeast Wisconsin freeway rehabilitation program are retired.

As the table shows, the percentage of gross transportation fund revenues devoted to debt service has increased over the period shown, suggesting that the use of bonding has grown at a faster rate than revenues. These increases have been particularly significant in the last three years, when debt service went from 7.0% of gross revenues in 2001-02, to a projected 12.4% in 2004-05. A significant part of this increase is due to the general obligation bond debt service for bonds issued for the highway rehabilitation programs in the 2003-05 biennium. Since this debt service is scheduled to become a general fund responsibility in 2005-06, part of the increase is temporary. However, even if this debt service had not been paid by the transportation fund in these years, the debt service percentages would be 8.1% in 2003-04 and a projected 9.5% in 2004-05.

Federal Funds

Although general obligation bond debt service

The state receives federal transportation funds

for several different programs. This section provides information on the following types of federal aid: (a) highway aid; (b) airport aid; (c) transit aid; and (d) transportation safety aid.

Federal Highway Aid

Federal highway aid is the largest category of transportation aid, with the state receiving over \$600 million in aid in federal fiscal year 2004. Because of the large amount received, federal highway aid plays an important role in the state's overall transportation finance policy. This program also tends to draw the most legislative interest because of the flexibility that the state has with respect to the use of the funds. Unlike the other federal transportation programs, in which funds are generally received for narrowly prescribed purposes, federal highway aid may be spent within any of several different federal subprograms, for both state and local transportation projects. In Wisconsin, the Legislature has established a process whereby the funds are allocated in the biennial budget to the different state programs corresponding to the various federal program categories. These allocations may be adjusted later by the Joint Committee on Finance in the event that the amount of funds received differs by more than 5% from the amount allocated by the budget act.

Although a majority of federal highway aid is used in the state highway programs, significant amounts are also spent on local highway and bridge projects that are eligible for federal assistance. Smaller amounts are also spent for the following federally authorized purposes: (a) railroad crossing improvements (generally new signals or gates); (b) transportation enhancements (generally bicycle and pedestrian projects and renovation of historic transportation facilities); (c) congestion mitigation/air quality improvement projects (measures designed to reduce road congestion in ozone nonattainment areas, including the state's emissions inspection program in southeastern Wisconsin); and (d) state and metropolitan transportation planning and research activities. Table 9 shows the allocation of federal

highway aid in state fiscal year 2003-04.

Table 9: Allocation of Federal Highway Aid for 2003-04

State Appropriation	Amount
State Highway Rehabilitation	\$274,826,900
Major Highway Development	103,532,600
Local Transportation Facility Assistance	80,052,600
Southeast Wisconsin Freeway Rehabilitation	71,317,600
Local Bridge Assistance	38,265,300
Departmental Operations	11,649,500
Congestion Mitigation/Air Quality Improvement	11,061,300
Emission Inspection Program	6,321,700
Transportation Enhancements	5,956,300
Administration and Planning	4,845,900
Rail Passenger Service	4,060,600
Railroad Crossing Improvement	3,141,200
Highway Maintenance	<u>1,015,800</u>
Total Federal Highway Aid	\$616,047,300

The source for federal highway aid is the highway account of the federal highway trust fund. The revenue in the highway account originates from a portion of the federal excise tax on gasoline and diesel fuel, a tax on tires over 40 pounds, taxes on the sale of heavy trucks and trailers, and the federal heavy vehicle use tax.

Federal Airport Aid

Federal airport aid is distributed in three forms: (a) entitlement funds, which are based on the number of enplanements at commercial service airports; (b) discretionary funds, which are distributed using a rating process for specific projects at general aviation or commercial airports; and (c) block grants, which are funds provided to states for use at general aviation airports. Entitlement funds and discretionary funds are received for either a particular airport or for a particular airport project, while the state has some discretion as to where block grant funds are used.

Most federal airport aid requires a nonfederal match of between 10% to 40%, depending upon the type of project. In Wisconsin, the nonfederal portion is split evenly between state funds and

local funds. The state received \$55.6 million in federal airport aid in federal fiscal year 2004. Federal airport funds are provided from the federal airport and airway trust fund, which includes revenue from taxes on airline tickets, flight segment taxes, air cargo taxes, and aviation fuel taxes.

Federal Transit Aid

Wisconsin receives transit aid from several different federal programs. The largest amounts are provided through the federal urbanized area formula and nonurbanized area formula programs. Urbanized areas over 200,000 in population (the Madison and Milwaukee urbanized areas) receive federal transit funds directly from the urbanized area formula program (administered by the metropolitan planning organization for those areas), while urbanized area funds for areas under 200,000, but over 50,000, in population are distributed to the state, which makes allocations as part of the state's transit aid formula. Nonurbanized area funds for areas under 50,000 in population are also distributed to the state and allocated to small local transit systems. Other federal transit programs include the job access reverse commute program, the elderly and disabled program, and the capital assistance program, which includes funding for new buses, new transit system capital assistance ("new starts"), and fixed guideway capital assistance. With some of these other programs, the state receives funding on a periodic basis in the form of Congressional earmarks or discretionary awards, while others provide funding on an annual basis based on a formula.

In federal fiscal year 2004, the total amount of transit aid received directly by the state and reflected in state appropriations was \$40.5 million. This includes the urbanized and nonurbanized formula funds, capital funds for buses, job access reverse commute funds, and elderly and disabled funds. The Madison and Milwaukee areas together directly received a total of \$25.1 million, which is

not reflected in state appropriations.

Transit aid is provided from the mass transit account of the highway trust fund. This account is funded with a portion of the federal excise tax on gasoline and diesel fuel.

Federal Transportation Safety Aid

The state receives most of its federal transportation safety funds from three programs. Two of them are general traffic safety programs, which are administered by the Department's Bureau of Transportation Safety within the Division of State Patrol and the other is the motor carrier safety assistance program, administered by the State Patrol's motor carrier inspectors.

The two general traffic safety programs are the state and community highway safety grant program (typically referred to as the "section 402" program after the citation for the program in Title 23 of the U.S. Code) and the alcohol-impaired driving countermeasures incentive grant program (also referred to as "section 410"). The section 402 program provides funds with broad eligibility for funding state programs and local grants designed to increase safety through education initiatives, enhanced enforcement, and emergency response improvements. In order to receive section 402 funds, states are required to develop a plan that outlines several traffic safety goals and describes how the projects that would be funded are designed to meet those goals. In federal fiscal year 2004, the state received \$3.1 million from this program.

The section 410 program provides grants to be used specifically to combat problems associated with impaired driving and underage alcohol consumption. In order to receive these funds, the state has to have a minimum number of certain laws or programs, such as an administrative license suspension law for drivers who are arrested with a blood alcohol level above the legal limit, a zero tolerance law for underage drivers, a graduated

license law, and a program to target drivers who are arrested for very high blood alcohol contents. About two-thirds of the states, including Wisconsin, currently qualify for these grants. In 2004, the state received \$0.9 million from this program.

Federal motor carrier safety assistance program funds are received for activities related to the enforcement of federal motor carrier laws. DOT uses these funds for a portion of the cost of the State Patrol's motor carrier inspectors, who conduct inspections at truck weigh stations and on roadsides. In 2004, the state received \$3.1 million in federal funds for the "basic" program. Typically, other smaller amounts are also received, on either a discretionary or formula basis, for specific projects related to motor carrier enforcement, such as upgrading the technology used to track enforcement-related data.

Allocation of the Three Transportation Revenue Sources

An analysis of transportation expenditures that focuses on just one source of funding provides an incomplete picture of legislative decisions, since the three principal funding sources are used interchangeably in certain key transportation programs. For instance, in the course of deliberations on the biennial budget, the Legislature may replace an amount of transportation fund dollars in the budget for the major highway development program with an equal amount of transportation revenue bonds (by increasing the statutory bonding authorization) so that the transportation fund dollars can be used in a different program, such as local transportation aids, for which bonds cannot be used. Although that decision would reduce the amount and percentage of transportation fund dollars allocated

Table 10: Allocation of the Three Major Transportation Revenue Sources Among All Functions

	2003-04 Allocation		Prior Four-Year Average	
	Dollar Amount	Percentage	Dollar Amount	Percentage
Highway Programs	\$1,034,212,900	39.7%	\$1,012,501,225	48.4%
Local Road Aids	538,086,500	20.6	504,211,650	24.1
General Fund Programs *	370,135,000	14.2	0	0.0
Mass Transit Aids	148,083,100	5.7	128,300,200	6.1
Debt Service	120,527,100	4.6	96,572,125	4.6
Railroads, Harbors, and Airports	103,771,000	4.0	73,587,900	3.5
General Administration	102,954,400	3.9	95,598,425	4.6
Division of Motor Vehicles	88,019,800	3.4	82,154,875	3.9
State Patrol	58,257,700	2.2	48,578,575	2.3
Other Programs**	24,594,000	0.9	32,219,400	1.5
Non-DOT Programs***	<u>20,594,300</u>	<u>0.8</u>	<u>18,296,850</u>	<u>0.9</u>
Total	\$2,609,235,800	100.0%	\$2,092,021,225	100.0%

*Includes appropriations for shared revenue and K-12 education aids as well as a transfer to the general fund.

**Includes the transportation economic assistance program, transportation enhancement grant program, congestion mitigation and air quality improvement grant program, traffic safety programs, expressway policing aids, and other smaller programs.

***Includes transfers to the conservation fund for the motorboat, snowmobile, and all-terrain vehicle accounts, and Department of Revenue programs for administering the transportation fund taxes.

to the major highway development program (and would provide a corresponding increase in the amount allocated to the other program), the overall level of funding for the major highway development program would remain unchanged, a fact that would not be apparent in an analysis of the allocation of transportation fund dollars alone.

For this reason, this section discusses the allocation of the combined sum of all three sources to various transportation program categories. Table 10 shows this allocation for 2003-04. This analysis reflects the amounts shown in the statutory appropriations schedule, with adjustments made to include transportation revenue bond debt service (which is not reflected in an appropriation) and to reflect the actual amount of general obligation debt service paid.

As mentioned earlier in this paper, the allocation of transportation resources during the two years of the 2003-05 biennium is significantly different from previous years. A total of \$565.5 million in general obligation bonds were authorized for the highway rehabilitation programs, allowing SEG funds in the base for those programs to be diverted for general fund purposes. The addition of these bonds to the total amount of transportation-related revenues and, at the same

time, the allocation of SEG funds to general fund purposes outside of DOT has the effect of reducing the percentage of the total funding used for DOT programs. To show this effect, and also to show what could be considered a more typical allocation from the previous years, the last two columns in Table 10 show the average amount and percentage allocation during the previous four fiscal years, from 1999-00 to 2002-03. As this comparison shows, in prior years, the highway programs, for instance, received 48.4% of transportation dollars from the three sources, whereas this fell to 39.7% in 2003-04, due in large part to the fact that the overall total was increased with the addition of the general obligation bonds for the highway programs and a portion of this higher total was used for general fund purposes.

A different way to analyze expenditure data is to look at the allocation of funding for only DOT programs and debt service. Table 11 shows the allocation of the sum of the three major transportation revenue sources, excluding the general fund purposes and other programs outside of DOT (which are the transfers to the conservation fund and the DOR appropriations for administering transportation fund taxes). Again, both the 2003-04 allocation and the previous four-year average allocation are shown.

Table 11: Allocation of the Three Major Transportation Revenue Sources Among DOT Programs

	2003-04 Allocation		Prior Four-Year Average	
	Dollar Amount	Percentage	Dollar Amount	Percentage
Highway Programs	\$1,034,212,900	46.6%	\$1,012,501,225	48.8%
Local Road Aids	538,086,500	24.3	504,211,650	24.3
Mass Transit Aids	148,083,100	6.7	128,300,200	6.2
Debt Service	120,527,100	5.4	96,572,125	4.7
Railroads, Harbors, and Airports	103,771,000	4.7	73,587,900	3.5
General Administration	102,954,400	4.6	95,598,425	4.6
Division of Motor Vehicles	88,019,800	4.0	82,154,875	4.0
State Patrol	58,257,700	2.6	48,578,575	2.3
Other Programs*	<u>24,594,000</u>	<u>1.1</u>	<u>32,219,400</u>	<u>1.6</u>
Total	\$2,218,506,500	100.0%	\$2,073,724,375	100.0%

*Includes the transportation economic assistance program, transportation enhancement grant program, congestion mitigation and air quality improvement grant program, traffic safety programs, expressway policing aids, and other smaller programs.