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Transportation Finance

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There are three principal funding sources for the state's transportation programs: 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 2007-08 fiscal year, since certain data for 2008-09 remained incomplete at the time of publication. In particular, the amount of federal aid that the state will receive in federal fiscal year 2009 remained 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 $1.7 billion in the 2007-08 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 [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 amounts collected from the major categories of transportation fund revenues for 2007-08. 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 (69% in 2007-08). 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.

Table 1: 2007-08 Transportation Fund Revenue Collections by Source

Source	Amount	Percent of Total
Motor Vehicle Fuel Tax	$999,949,100	59.5%
Vehicle Registration Fees	538,900,800	32.0
Driver License Fees	35,655,800	2.1
Other Motor Vehicle Fees	29,960,900	1.8
Aeronautical Taxes and Fees	8,488,500	0.5
Railroad Ad Valorem Tax	19,860,500	1.2
Investment Earnings	12,701,800	0.8
Miscellaneous Revenue	35,784,500	2.1
Total	$1,681,301,900	100.0%

As can be seen from this table, a large majority of the gross transportation fund revenues comes 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 heavy reliance on these two sources to fund a broad range of transportation programs is a hallmark of financing transportation in this state.

Table 2 shows the annual amount of gross transportation fund revenues collected since 1997-98, the annual percentage growth of those amounts and the ten- and five-year average growth rates. Over this period, revenue growth has resulted from a combination of factors, including increases in the volume of activity subject to transportation fees and taxes (such as the number of gallons of fuel consumed or the number of motor vehicles registered), enacted increases in tax and fee rates, and, up until 2005-06, automatic indexing of the fuel tax rate (described in more detail below).

Table 2: Gross Transportation Fund Revenue History

Fiscal Year	Total Gross Revenue	Percent Increase
1997-98	$1,141,690,400	
1998-99	1,235,125,500	8.2%
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
2004-05	1,482,900,700	2.9
2005-06	1,523,307,400	2.7
2006-07	1,612,853,600	5.9
2007-08	1,681,301,900	4.2
10-Year Average		3.9
5-Year Average		3.9

To help illustrate the relative impact on revenue growth of increases in transportation activities ("natural" growth) versus growth from tax and fee changes, Table 3 shows the volume of several key transportation revenue transactions. In other words, the annual percentage increases shown for each source is roughly equal to the annual, percentage revenue growth that could be expected from that source in the absence of any changes to taxes or fees. For instance, motor fuel consumption, which accounts for about 60% of gross fund revenues, has grown by an average of 0.5% over the past ten years, considerably below the general rate of inflation. Vehicle registration counts have grown at slightly higher rates, but also generally below

Table 3: Motor Fuel Consumption and Motor Vehicle Registrations (In Millions of Gallons or Vehicles)

	Motor Fuel		Automobiles		Light Trucks		Heavy Trucks	
Fiscal Year	Gallons	% Change	Number	% Change	Number	% Change	Number	% Change
1997-98	3,086.3		3.01		0.74		0.15	
1998-99	3,138.9	1.7%	3.03	0.9%	0.77	3.7%	0.15	1.6%
1999-00	3,066.8	-2.3	3.10	2.1	0.80	3.9	0.16	6.3
2000-01	3,112.9	1.5	3.17	2.3	0.82	2.9	0.17	6.2
2001-02	3,209.6	3.1	3.22	1.8	0.85	2.6	0.18	5.3
2002-03	3,214.1	0.1	3.29	1.9	0.86	1.8	0.19	5.3
2003-04	3,280.8	2.1	3.32	1.1	0.88	2.1	0.20	5.6
2004-05	3,224.6	-1.7	3.36	1.2	0.89	1.8	0.21	6.2
2005-06	3,185.9	-1.2	3.41	1.5	0.91	2.0	0.23	7.5
2006-07	3,259.9	2.3	3.48	1.8	0.91	-0.3	0.23	0.2
2007-08	3,247.4	-0.4	3.52	1.3	0.91	-0.4	0.24	2.8
10-Year Average		0.5%		1.6%		2.0%		4.7%
5-Year Average		0.2%		1.4%		1.0%		4.4%

inflation, and they account for a comparatively smaller share of fund revenues. Furthermore, it should be noted that the rates of growth in these sources have been smaller during the past five years than the ten-year average. By contrast, the total revenue growth rates shown in Table 2 are considerably higher (3.9% in both the ten- and five-year averages). This indicates that most of the revenue growth has occurred as the result of tax and fee increases, either from motor fuel tax indexing or from statutory changes enacted by the Legislature.

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 59.5% of gross revenues in 2007-08. The tax is imposed on a per-gallon basis on gasoline, diesel, and alternate fuels (such as compressed natural gas and liquid propane gas) used in motor vehicles. Currently, the fuel tax rate on diesel and gasoline is 30.9 cents per gallon. The last increase in the rate occurred on April 1, 2006, an adjustment (up from 30.1 cents per gallon) under the state's annual, inflation-based indexing formula. The rate indexing adjustment, which was begun in 1984, was repealed by 2005 Act 85, so any future changes will have to be enacted through legislation.

Alternate fuel tax rates are currently 22.6 cents per gallon for liquefied petroleum gas and 24.7 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 (about 90% of the total), but also includes other vehicle-related fees. The most significant of these other fees include title transfer fees ($60.50 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 January 1, 2008, from $55 to $75. 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 $75 for a truck that is 4,500 pounds or less, to $2,578 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 January 1, 2008, when the fees for light trucks were increased to between $75 and $106, depending upon gross weight, and fees for all weight classifications of heavy trucks were increased by 30%. Table 4 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.

Table 4: 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
January 1, 2008	55.00	75.00

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
January 1, 2008	1,987.50	2,578.00

Driver License Fees. Driver license revenues include the fees for original and renewal driver 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. On January 1, 2008, a $10 fee was added to all driver's license and related transactions to help cover the cost of implementing federal Real ID Act requirements related to the issuance standards used for licenses and identification cards.

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%. This category also include motor carrier registration fees, which are paid by commercial motor carrier companies, based on the number of vehicles operated in interstate commerce.

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 2008, there were 29 airlines that paid this tax.

Airlines that operate a hub facility in the state are exempt from paying the ad valorem tax, an exemption that began in 2001. 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. In 2008, Midwest Airlines qualified under the first definition and is the only carrier that qualified for the exemption.

In 2007-08, the ad valorem tax on commercial airline property accounted for about 79% 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 (not including aircraft operated by an airline qualifying for the hub exemption) 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 2008, there were 11 railroad companies that paid the tax.

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.

In addition, the transportation fund also receives two annual transfers from other funds, which are included in the miscellaneous revenue category. 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 amount paid by Midwest Airlines in 2000, the last year before the exemption took effect, the transfer in both years of the 2007-09 biennium from the general fund is $1,953,300.

The other transfer is from the petroleum inspection fund. The intent of this transfer, when it was created in 2004-05, was to fund a portion of the cost of the vehicle emissions inspection program in southeast Wisconsin with revenue from that fund, but there is no direct tie to the appropriation for that program. The transfer has typically been $6,321,700 annually, although in the 2007-09 biennium it is $20,321,700 in 2007-08 and $6,321,700 in 2008-09. The amount in 2007-08 was supplemented with a one-time transfer of surplus revenues in the petroleum inspection fund.

Use of Transportation Fund Revenues for General Fund Purposes

In each biennium since 2003-05, transportation fund revenues have been used as part of a strategy to balance the general fund budget, although the mechanism for these transactions has differed. The 2003-05 budget act used a combination of direct appropriations from the transportation fund for general fund programs (shared revenue and K-12 education aids) and a transfer of revenues from the transportation fund to the general fund, for a total of $675.0 million. The 2005-07 biennial budget act made a transfer of $427.0 million from the transportation fund to the general fund, but did not make any direct appropriations from the transportation fund to general fund programs.

The 2007-09 budget act (Act 20) and the 2008-09 budget adjustment act (Act 226) together resulted in a transfer of $155 million from the transportation fund to the general fund. Of this amount, $2.0 million was a direct transfer required under Act 226. The remainder was the result of provisions in both acts that required the Department of Administration (DOA) to lapse certain amounts from executive branch agency appropriations. The acts did not identify the specific amounts that would be lapsed from any particular appropriation or even which appropriations would be affected. Instead, at DOA's discretion, a total of $153 million was lapsed from transportation fund appropriations, all of it coming from 2007-08 appropriations for major highway development ($52 million) and state highway rehabilitation ($101 million).

In all three biennia, general fund-supported bonds were used to partially replace transportation fund revenues, although in each case there was a net loss of revenues available for transportation programs. The following amounts of general obligation bonds were authorized for this purpose: (a) $565.5 million in the 2003-05 biennium; (b) $250.0 million in the 2005-07 biennium; and (c) $50.0 million in the 2007-09 biennium.

The debt service on these bonds is paid from the general fund, although the initial debt service payments on the 2003-05 bonds, totaling $43.9 million, were paid from the transportation fund during that biennium. General fund debt service payments are currently about $106 million annually. These payments will decrease to about $50 million in 2015-16 as the initial bonds begin to be retired.

In addition to general obligation bonds, the Governor directed the Department to increase the use of previously-authorized transportation revenue bonds during the 2005-07 and 2007-09 biennia to replace a portion of the transferred funds. A total of $51.8 million in 2005-07 and $39.0 million in 2007-09 of additional transportation bonds were issued for the major highway development program for this purpose. The interest payments on these bonds, which is the net cost to the transportation fund of this transaction, are estimated at about $50 million, an amount that will be paid over a period of slightly more than 20 years.

Table 5 summarizes the transfers, general obligation bonds, and the debt service paid from the transportation fund. The totals are expressed in terms of the "loss" to the transportation fund as a result of the transfers and appropriations. While the appropriations and transfers for general fund purposes are partially offset by the replacement bonding, the debt service paid from the transportation fund in the 2003-05 biennium adds to the loss. Therefore, the total loss to the transportation fund over the six years equals $435.4 million. However, this does not include the interest cost of $50 million associated with the additional transportation revenue bonds, since this is paid over a period exceeding twenty years. The amounts shown in Table 5 reflect only the costs borne during those three biennia.

Table 5: Loss to Transportation Programs Due to Transfers in the 2003-05, 2005-07, and 2007-09 Biennia ($ in Millions)

	2003-05	2005-07	2007-09	6-Year Total
Transfers and Appropriations	$675.0	$427.0	$155.0	$1,257.0
Less Gen. Ob. Bonds	-565.5	-250.0	-50.0	-865.5
Plus Trans. Fund Debt Service	43.9	0.0	0.0	43.9
Total	$153.4	$177.0	$105.0	$435.4

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.

Although the state generally replaced the use of general obligation bonds for major highway development projects with revenue bonds in 1984, transportation fund-supported, general obligation bonds have long been issued for freight rail and harbor improvement projects and, beginning in the 2005-07 biennium, have been authorized for reconstruction projects on the southeast Wisconsin freeway system. Because debt service on general obligation bonds is paid from a sum-sufficient appropriation from the transportation fund rather than from pledged revenues, the coverage ratio measure is not relevant to a discussion of this bonding. Different measures of the level of bonding and debt service are discussed in the following section.

Bonding Level

Table 6 shows the amount of revenue bonds provided for major highway development and administrative facilities projects over a ten-year

Table 6: Revenue Bond Appropriations and Debt Service

	Revenue Bond Appropriations			
Fiscal Year	Major Hwy. Development	Admin. Facilities	Total	Revenue Bond Debt Service
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	122,043,600
2005-06	150,838,100	6,000,000	156,838,100	143,678,500
2006-07	146,727,200	6,000,000	152,727,200	152,682,800
2007-08	204,738,300	6,000,000	210,738,300	167,402,600
2008-09*	195,395,600	6,000,000	201,395,600	171,792,100
Average Annual Growth Rate			5.7%	8.2%

*Debt service amount shown for 2008-09 is an estimate.

period, as well as the amount of revenue bond debt service paid during that period (including projected amounts for 2008-09). Over this period, appropriations of transportation revenue bond proceeds have grown at an average, annual rate of 5.7%, while debt service grew at an average, annual rate of 8.2%.

In the 2007-09 biennium, bond usage for the major highway development program is higher in both years than the amount appropriated by the 2007-09 biennial budget act because of adjustments made with the subsequent passage of the budget adjustment act. First, bonding was increased by $39,000,000 in 2007-08 to partially compensate for a lapse from the program to the general fund. Second, bonding was increased in 2008-09 by $28,000,000 to offset a corresponding decrease that was made in the transportation fund appropriation for the program to address a projected biennium-ending deficit in the fund.

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 7 shows the coverage ratios over a ten-year period, including an estimate of the coverage ratio for 2008-09. As the table shows, coverage ratios have generally been maintained above 3.0:1 The vehicle registration and title fee increases enacted in the 2007-09 biennium resulted in a projected increase in coverage ratios in 2007-08 and 2008-09.

Table 7: Revenue Bond Coverage Ratios ($ in Millions)

Fiscal Year	Revenue Bond Debt Service	Pledged Revenue	Coverage Ratio
1999-00	$84.2	$312.5	3.7:1
2000-01	89.1	315.5	3.5:1
2001-02	87.9	325.0	3.7:1
2002-03	101.1	325.9	3.2:1
2003-04	113.1	426.5	3.8:1
2004-05	122.0	436.7	3.6:1
2005-06	143.7	467.4	3.3:1
2006-07	152.7	458.1	3.0:1
2007-08	167.4	544.7	3.3:1
2008-09*	171.8	636.3	3.7:1

* Figures for 2008-09 are estimates.

Coverage ratios also increased in the 2003-05 biennium, despite rapid increases in debt service payments, in part because the biennial budget act increased the registration fee for automobiles by $10, from $45 to $55, but also because it added several types of fees to the list of revenues that are pledged to the payment of debt service, including 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 decision made in the 2003-05 biennium to pledge additional, existing revenues for debt service illustrates one of the limitations of using the coverage ratio as a measure of overall bonding indebtedness. While increasing overall pledged revenues by pledging title fees for debt service payments (as opposed to increasing the fees that are already pledged) temporarily increased the coverage ratio, this type of decision does not necessarily improve the state's overall transportation fiscal condition, since it did not increase the total amount of revenues available for transportation.

In addition to this limitation, coverage ratios are also not a complete measure of the overall level of indebtedness because, as noted above, they do not take into consideration the level of general obligation bond debt. As also noted earlier, the use of general obligation bonds is a long-standing practice, but has increased recently, particularly with the authorization of $213.1 million in bonds for the Marquette Interchange reconstruction project by the 2005-07 biennial budget act and the authorization of $90.2 million for the I-94 North-South Freeway project between Milwaukee and the Illinois state line. Table 8 shows the amount of general obligation bonding authorized over the last five biennia. The bonds authorized to replace

Table 8: General Obligation Bond Authorization

Biennium	Freight Rail Projects	Harbor Projects	Highway Projects	Total
1999-01	$4,500,000	$7,000,000	$0	$11,500,000
2001-03	4,500,000	3,000,000	0	7,500,000
2003-05	4,500,000	3,000,000	0	7,500,000
2005-07	12,000,000	12,700,000	213,100,000	237,800,000
2007-09	22,000,000	12,700,000	90,200,000	124,900,000

transportation fund revenues in the highway program in the 2003-05 through 2007-09 biennia are excluded since these bonds were not generally transportation fund-supported bonds.

Since the use of general obligation bonds increased significantly in the 2005-07 biennium, and may continue to be a source of funding for transportation, it may be useful to use a measure of the debt burden that takes into consideration both revenue bond and general obligation bond debt service. One measure that does this is the percentage of total transportation fund revenues that must be devoted to paying total debt service on both types of bonds. Table 9 shows this measure of debt service for the fiscal years since 1999-00, including a projection for 2008-09.

Table 9: Debt Service as a Percentage of Gross Transportation Fund Revenue ($ in Millions)

Fiscal Year	Total Debt Service	Gross Revenues	Debt Service as % of Revenues
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	166.2	1,482.9	11.2
2005-06	148.2	1,523.3	9.7
2006-07	165.3	1,612.9	10.2
2007-08	187.5	1,681.3	11.2
2008-09*	195.6	1,775.3	11.0

* Debt service and revenues shown for 2008-09 are estimates.

As the table shows, the percentage of gross transportation fund revenues devoted to debt service has generally increased over the period shown, suggesting that the use of bonding has grown at a faster rate than revenues. Significantly, these percentages continue to increase in the 2007-09 biennium, despite the fact that the biennial budget act included fairly substantial fee increases for vehicle registration, vehicle titles, and driver's licenses. In other words, debt service increases over the 2007-09 biennium have outpaced revenue growth over the same period, even with the enacted fee increases.

Federal Funds

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 $719 million in aid in federal fiscal year 2008. 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); (d) the safe routes to school grant program; and (e) state and metropolitan transportation planning and research activities. Table 10 shows the allocation of federal highway aid in state fiscal year 2007-08, including adjustments made in the budget adjustment act.

Table 10: Allocation of Federal Highway Aid for 2007-08

State Appropriation	Amount
State Highway Rehabilitation	$405,421,800
Major Highway Development	98,975,000
Southeast Wisconsin Freeway Rehabilitation	72,493,500
Local Transportation Facility Assistance	70,391,300
Local Bridge Assistance	24,438,300
Congestion Mitigation/Air Quality Improvement	11,619,000
Departmental Operations	11,859,700
Transportation Enhancements	6,251,600
Safe Routes to School	4,600,000
Rail Passenger Service	5,076,200
Administration and Planning	3,579,900
Railroad Crossing Improvement	3,299,600
Highway Maintenance	1,102,900
Total Federal Highway Aid	$719,108,800

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 $50.9 million in federal airport aid in federal fiscal year 2008. 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 2008, the total amount of transit aid received directly by the state was $49.0 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 $31.4 million in federal formula funds.

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 2008, the state received $4.5 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. In 2008, the state received $2.8 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 2008, the state received $4.3 million in federal funds under the formula component of the program. Typically, other smaller amounts are also received on a discretionary 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

This final section focuses on the expenditure of the three types of transportation revenues described in this paper. An analysis of transportation expenditures that focuses on just one of these sources would provide an incomplete picture of legislative decisions, since the three 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 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 11 shows this allocation for 2007-08. 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. This table shows the allocation of funding to DOT programs, as well as the amount transferred to the general fund and amounts appropriated for non-DOT programs (which are the transfers to the conservation fund for snowmobile, all-terrain vehicle, and motorboat accounts, and the Department of Revenue appropriations for administering transportation fund taxes). Of the total shown in Table 11, $1,681,390,900 is from the state transportation fund, $848,077,800 is federal funds, and $323,188,300 is bonds.

Table 11: Allocation of the Three Major Transportation Revenue Sources Among All Functions

	2007-08 Allocation Amount	Percentage
Highway Programs	$1,379,345,400	48.4%
Local Road Aids	537,379,200	18.8
Debt Service	187,495,300	6.6
Mass Transit Aids	157,885,700	5.5
General Fund Transfer	155,000,000	5.4
Railroads, Harbors, and Airports	119,747,200	4.2
General Administration	102,271,600	3.6
Division of Motor Vehicles	84,603,200	3.0
State Patrol	68,039,700	2.4
Other Programs*	35,517,100	1.2
Non-DOT Programs**	25,372,600	0.9
Total	$2,852,657,000	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.

**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.

A different way to analyze expenditure data is to look at the allocation of funding for only DOT programs and debt service. Table 12 shows the allocation of the sum of the three major transportation revenue sources, excluding the general fund purposes and other programs outside of DOT. Of the total shown in Table 12, $1,501,018,300 is from the transportation fund, $848,077,800 is federal funds, and $323,188,300 is bonds.

Table 12: Allocation of the Three Major Transportation Revenue Sources Among DOT Programs

	2007-08 Allocation Amount	Percentage
Highway Programs	$1,379,345,400	51.6%
Local Road Aids	537,379,200	20.1
Debt Service	187,495,300	7.0
Mass Transit Aids	157,885,700	5.9
Railroads, Harbors, and Airports	119,747,200	4.5
General Administration	102,271,600	3.8
Division of Motor Vehicles	84,603,200	3.2
State Patrol	68,039,700	2.5
Other Programs*	35,517,100	1.3
Total	$2,672,284,400	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.