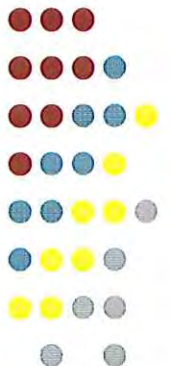


Transportation Finance

Wisconsin Legislative Fiscal Bureau
January, 2011



Transportation Finance

Prepared by

Jon Dyck

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

Transportation Finance

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 2009-10 fiscal year, since certain data for 2010-11 remained incomplete at the time of publication. In particular, the amount of federal aid that the state will receive in federal fiscal year 2011 remained uncertain and the final decisions regarding appropriation lapses and potential transfers to the general fund had not yet been made.

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 of about \$1.7 billion in the 2009-10 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.

Overview of Transportation Fund Revenues

Table 1 shows the amounts collected from the major categories of transportation fund revenues for 2009-10. 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 (72% in 2009-10). 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: 2009-10 Transportation Fund Revenue Collections by Source

Source	Amount	Percent of Total
Motor Vehicle Fuel Tax	\$971,786,900	56.7%
Vehicle Registration Fees	610,251,900	35.6
Driver License Fees	41,715,900	2.4
Other Motor Vehicle Fees	27,115,300	1.6
Aeronautical Taxes and Fees	5,908,100	0.3
Railroad Ad Valorem Tax	24,058,600	1.4
Investment Earnings	131,700	<0.1
Miscellaneous Revenue	<u>33,140,600</u>	<u>1.9</u>
Total	\$1,714,109,000	100.0%

As can be seen from this table, a large majority of the gross transportation fund revenues comes from 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 1999-00, 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
1999-00	\$1,271,083,000	
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
2008-09	1,693,611,600	0.7
2009-10	1,714,109,000	1.2
10-Year Average		3.0
5-Year Average		2.9

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 are 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 57% of gross fund revenues, has grown by an average of just 0.3% over the past ten years, considerably below the general rate of inflation, and has declined by an average of 0.5% in the past five years. Vehicle registration

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

Fiscal Year	Motor Fuel		Automobiles		Light Trucks		Heavy Trucks	
	Gallons	% Change	Number	% Change	Number	% Change	Number	% Change
1999-00	3,066.8		3.097		0.801		0.162	
2000-01	3,112.9	1.5%	3.168	2.3%	0.824	2.9%	0.172	6.2%
2001-02	3,209.6	3.1	3.225	1.8	0.846	2.6	0.181	5.3
2002-03	3,214.1	0.1	3.287	1.9	0.861	1.8	0.191	5.3
2003-04	3,280.8	2.1	3.324	1.1	0.879	2.1	0.201	5.6
2004-05	3,224.6	-1.7	3.363	1.2	0.895	1.8	0.214	6.2
2005-06	3,185.9	-1.2	3.415	1.5	0.903	0.9	0.230	7.5
2006-07	3,259.9	2.3	3.477	1.8	0.910	0.9	0.231	0.2
2007-08	3,247.4	-0.4	3.521	1.3	0.907	-0.4	0.237	2.8
2008-09	3,146.6	-3.1	3.507	-0.4	0.895	-1.4	0.233	-1.6
2009-10	3,144.9	-0.1	3.516	0.3	0.892	-0.4	0.219	-6.4
10-Year Average		0.3%		1.3%		1.1%		3.0%
5-Year Average		-0.5%		0.9%		-0.1%		0.4%

counts have grown at slightly higher rates, but also generally below 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 (about 3% 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 56.7% of gross revenues in 2009-10. 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 85% 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

Date of Change	Old Fee	New Fee
Automobile		
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		
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 \$34, while the fee for a commercial driver's license is \$74. Formally, these fees consist of a regular license fee (\$24 and \$64, respectively) plus a \$10 "issuance" fee. On January 1, 2008, the \$10 fee was added to all driver's license and related transactions to help support the cost of implementing federal Real ID Act.

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 includes 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 2010, there were 25 airlines that paid this tax.

Airlines that operate a hub facility in the state are exempt from paying the ad valorem tax, an ex-

emption 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. Air Wisconsin Airlines was exempt under the second part of the definition between 2001 and 2006, but has not qualified for the exemption since that time. Midwest Airlines qualified for the exemption under the first part of the definition between 2001 and 2009. In 2009, Midwest Airlines was acquired by Republic Airlines, which merged the Midwest operations with Frontier Airlines and other smaller companies owned by Republic. The merged operation continues to qualify for the exemption under the first part of the definition.

In 2009-10, the ad valorem tax on commercial airline property accounted for 73% 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 2010, there were 12 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 has received, or continues to receive, transfers from other funds, which are included in the miscellaneous revenue category. One ongoing 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. In fact, the transfer in recent years has exceeded the appropriation for the emissions inspection program (\$3,548,100 annually in the 2009-11 biennium). The transfer was \$16,258,500 in 2009-10 and \$24,058,500 in 2010-11, which was the sum of an ongoing, annual transfer of \$6,258,500 and one-time transfers of \$10,000,000 in 2009-10 and \$17,800,000 in 2010-11. The additional transfers in the 2009-11 biennium were an allocation of a projected surplus in the petroleum inspection fund.

Another transfer is 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. Initially, the transfer was \$2,530,400, based upon the total ad valorem taxes paid by Midwest Airlines and Air Wisconsin in 2000, the last year before the exemption took effect. After Air Wisconsin no longer qualified for the exemption (in 2007), the transfer fell to \$1,953,300, the taxes paid by Midwest Airlines in 2000. With the acquisition of Midwest Airlines by Republic Airlines, the amount of the transfer will likely increase, although these issues had not been completely resolved at the time of publication.

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. In each case, general fund-supported bonds were issued for state highway projects in place of the transferred funds, although the total amount transferred was typically more than the replacement bonds. This section describes those budget management measures for each biennium.

2003-05 Biennium. The 2003-05 biennial 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. A total of \$565.5 million in bonds were authorized for the state highway rehabilitation and southeast Wisconsin freeway rehabilitation programs to offset some of the transfer. During the 2003-05 biennium, the first debt service payments on the bonds were made from the transportation fund, totaling \$43.9 million. Beginning in the 2005-07 biennium, however, debt service payments have been made from the general fund.

2005-07 Biennium. The 2005-07 biennial budget act made a transfer of \$427.0 million from the transportation fund to the general fund instead of making direct appropriations from the transporta-

tion fund to specific general fund programs. The act authorized \$250.0 million in general fund-supported bonds in the state highway rehabilitation program to partially replace the transferred revenues.

2007-09 Biennium. The 2007-09 biennial budget act (Act 20) and the 2008-09 budget adjustment act (Act 226) together resulted in a transfer of \$162.0 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 \$153.2 million was lapsed in 2007-08 from transportation fund appropriations, primarily from the major highway development (\$52.0 million) and the state highway rehabilitation (\$101.0 million) programs. In 2008-09, an additional \$6.8 million was lapsed to the general fund, primarily from the major highway development (\$3.0 million) and state highway rehabilitation (\$3.3 million) appropriations.

Act 226 appropriated \$50.0 million for the state highway rehabilitation program to partially replace lapsed funds in the 2007-09 biennium.

2009-11 Biennium. The 2009-11 biennial budget act, like the 2007-09 budget, did not include a specific transfer of transportation fund revenues to the general fund. Instead, transfers in the biennium are made under the authority of two separate provisions that required the Department of Administration to lapse specific amounts from executive branch agencies. One of these provisions, included in 2007 Act 20, required a lapse of \$200.0 million in the 2009-11 biennium (in addition to the \$200.0 million lapse required during the 2007-09 biennium). The other provision, included in 2009 Act 2 and later amended by 2009 Act 28, required a lapse totaling \$479.8 million from executive branch

agencies during the three-year period between 2008-09 through 2010-11.

At the time of publication, the Department of Administration had executed lapses for 2009-10, but the decisions on final lapses for 2010-11 had not been made. In 2009-10, a total of \$84.8 million had been lapsed from transportation fund appropriations or from unappropriated transportation fund balances. Of this total, \$5.9 million was lapsed primarily from the Department of Transportation's administrative appropriations under the authority of the \$200.0 million lapse provision contained in 2007 Act 20. The remainder (\$78.8 million) was lapsed under the authority of the 2009 Act 2 lapse provision. The Department of Administration indicated at the time of this lapse that this amount represented the planned lapses from transportation fund appropriations for both years of the biennium under the 2009 Act 2 provision, and reflects the expenditure savings associated with budget management measures adopted in Act 28 (including employee furloughs and a 5.135% across-the-board cut to certain programs). Accordingly, any additional lapses in 2010-11 from transportation fund appropriations would be made under the authority of the \$200.0 million lapse provision.

For the 2009-11 biennium, \$204.7 million in general fund-supported bonds were authorized for the state highway rehabilitation program. If it is assumed that one-half of these bonds are allocated in each year of the biennium (\$102.4 million), then the bonds authorized in 2009-10 exceeded the lapses in that year by \$17.6 million. Consequently, unlike in prior years, transportation programs received a net gain from the transfer provision in that

year. However, any additional lapses taken in the 2010-11 fiscal year will determine whether transportation programs will be a net beneficiary for the biennium.

It should be noted that the net gain for transportation programs in 2009-10 is in aggregate. Some programs, such as the Department's administrative functions and the state highway maintenance program, were subject to the 5.135% across-the-board cut and other budgetary management measures, but did not directly benefit from the bond proceeds. The state highway rehabilitation program, however, was exempt from the 5.135% across-the-board reduction that affected other programs, and, in addition, received the bond proceeds, making it the only transportation program to benefit directly from the transaction.

Table 5 summarizes the transfers, general obligation bonds, and the debt service paid from the transportation fund, from the 2003-05 biennium through 2009-10. The totals are expressed in terms of the "loss" to the transportation fund as a result of the transfers and appropriations. [That is, a positive number represents a net loss, while the negative total in 2009-10 represents a net gain to transportation programs in that year.]

The total loss to the transportation fund over the seven years equals \$428.5 million. If no additional transfers are made in 2010-11, this figure will decline to \$326.2 million, due to the remaining \$102.3 million in bonds. However, additional transfers made in 2010-11 under the \$200.0 million provision would add back to the total loss over these four biennia.

Table 5: Loss to Transportation Programs Due to Transfers from the 2003-05 Biennium through 2009-10 (\$ in Millions)

	2003-05	2005-07	2007-09	2009-10	7-Year Total
Transfers and Appropriations	\$675.0	\$430.8	\$162.0	\$84.8	\$1,352.6
Less Gen. Ob. Bonds	-565.5	-250.0	-50.0	-102.4	-967.9
Plus Trans. Fund Debt Service	<u>43.9</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>43.9</u>
Total	\$153.4	\$180.8	\$112.0	-\$17.6	\$428.6

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.] Currently, the state issues two types of transportation fund-supported bonds: transportation revenue bonds and general obligation bonds. This section describes the uses of both types of bonds and includes a discussion of the debt service costs associated with the use of bonds.

Transportation Revenue Bonds

Transportation revenue bonds have been issued for the major highway development program and for administrative facilities (Department buildings, such as Division of Motor Vehicles service centers) since 1984. In general, the source of debt service payments for revenue bonds 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.

Table 6 shows the amount of revenue bonds provided for major highway development and administrative facilities projects over a ten-year period. Over this period, revenue bond usage averaged \$158.8 million per year. The high usage years of 2007-08 and 2008-09 offset reductions in cash funding made to address a projected transportation fund deficit and to free up funds for transfer to the general fund.

Table 6: Transportation Revenue Bond Appropriations

Fiscal Year	Major Hwy. Development	Admin. Facilities	Total
2001-02	\$127,035,100	\$4,377,300	\$131,412,400
2002-03	130,139,100	6,000,000	136,139,100
2003-04	136,167,400	6,000,000	142,167,400
2004-05	136,804,400	6,000,000	142,804,400
2005-06	150,838,100	6,000,000	156,838,100
2006-07	146,727,200	6,000,000	152,727,200
2007-08	204,738,300	6,000,000	210,738,300
2008-09	195,395,600	6,000,000	201,395,600
2009-10	135,721,600	5,940,000	141,661,600
2010-11	165,721,600	5,940,000	171,661,600

General Obligation Bonds

The state has long used transportation fund-supported, general obligation bonds for freight rail and harbor improvement projects. More recently, however, these bonds have also been authorized for state highway improvement projects (although general obligation bonds were also used for highways prior to the creation of the transportation revenue bond program in 1984). Unlike with revenue bonds, which have a dedicated, but ultimately limited, revenue source for debt service payments, the state pledges the "full faith, credit, and taxing power" of the state for the payment of debt service on general obligation bonds. In the case of transportation fund-supported, general obligation bonds, the debt service is paid from sum sufficient (first-draw) appropriations from the transportation fund.

Table 7 shows the general obligation bond authorization for the past five biennia, and illustrates the extent to which the state has recently increased the use these bonds. With the beginning of major work on the southeast Wisconsin freeway reconstruction projects in the 2005-07 biennium, the state relied on general obligation bonds as a significant source of financing, a pattern continuing through 2009-11. Then, beginning with the 2009-11 biennial budget, this type of bonds was also authorized for the state highway rehabilitation and major highway development programs, without reference to specific projects in those programs.

Table 7: Transportation Fund-Supported General Obligation Bond Authorization

Biennium	Freight Rail Projects	Harbor Projects	SE Wisconsin Freeway Projects	Other State Highway Projects	Total
2001-03	\$4,500,000	\$3,000,000	\$0	\$0	\$7,500,000
2003-05	4,500,000	3,000,000	0	0	7,500,000
2005-07	12,000,000	12,700,000	213,100,000	0	237,800,000
2007-09	22,000,000	12,700,000	90,200,000	0	124,900,000
2009-11	60,000,000	12,700,000	250,250,000	110,000,000	432,950,000

Measures of Debt Service Level

The issuance of bonds for transportation projects allows the benefits of the projects to be realized earlier than would be the case with cash financing, while spreading out the costs, through the payment of debt service, over the life of the improvement. However, continued reliance on bonds over a sustained period can result in debt service costs that consume an increasing share of transportation revenues. There are two principal measures of transportation fund debt service levels that have been used to evaluate the state's use of bonds.

The first measure applies only to the debt service associated with transportation revenue bonds. The "coverage ratio" is the relationship between the amount of pledged revenues received during a given time period and the amount of debt service payments in that period. 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.

Table 8 shows the coverage ratios over a ten-year period. 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 higher coverage ratios in subsequent years.

Table 8: Revenue Bond Coverage Ratios (\$ in Millions)

Fiscal Year	Revenue Bond Debt Service	Pledged Revenue	Coverage Ratio
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	169.9	600.5	3.5:1
2009-10	170.6	610.4	3.6:1

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.

While the coverage ratio provides a measure of debt service compared to pledged revenue for the payment of the debt service, it does not provide information on the overall level of transportation fund debt service, since it excludes debt service on general obligation bonds. A more comprehensive measure is the total of all transportation debt service as a percentage of gross transportation fund revenues. Table 9 shows this measure of debt service for the fiscal years since 2000-01.

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
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	191.0	1,693.6	11.3
2009-10	184.8	1,714.1	10.8

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. The debt service percentage in 2009-10 was lower in part due to an initiative to restructure general obligation debt, which deferred principal payments, lowering total debt service. Without that deferral, the total debt service in 2009-10 would have been \$196.7 million and the debt service percentage would have been 11.5%.

Federal Funds

The state receives federal transportation funds for several different programs. This section pro-

vides information on the following types of federal aid: (a) highway aid; (b) airport aid; (c) transit aid; and (d) transportation safety aid. In addition to these regular sources of federal aid, the state received additional federal aid in 2008-09 and 2009-10 under federal economic stimulus legislation (the American Recovery and Reinvestment Act of 2009). This section also provides a brief description of the funding received under that act.

Federal Highway Aid

Federal highway aid is the largest category of transportation aid, with the state receiving \$734.1 million in aid in federal fiscal year 2010. 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 and bicycle and pedestrian facilities; (c) congestion mitigation/air quality improvement projects (measures designed to reduce road congestion in ozone non-attainment 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 2009-10, including adjustments made under a plan submitted to the Joint Committee on Finance by the Department to allocate additional federal fiscal year 2010 aid.

Table 10: Allocation of Federal Highway Aid for 2009-10

State Appropriation	Amount
State Highway Rehabilitation	\$361,111,800
Southeast Wisconsin Freeway Rehabilitation	129,732,200
Major Highway Development	88,693,100
Local Transportation Facility Assistance	72,272,900
Local Bridge Assistance	24,431,100
Departmental Operations	13,339,500
Congestion Mitigation/Air Quality Improvement	11,619,000
Highway Maintenance	8,602,900
Transportation Enhancements	6,251,600
Rail Passenger Service	5,218,200
Administration and Planning	3,615,400
Railroad Crossing Improvement	3,297,100
Safe Routes to School	3,230,100
Bicycle and Pedestrian Facilities	<u>2,720,000</u>
Total Federal Highway Aid	\$734,134,900

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. In addition, between 2008 and 2010, Congress transferred a total of \$29.7 billion in federal general fund revenues into the federal highway account to compensate for falling federal highway account revenue collections. [This does not include an additional \$26.6 billion appropriated for highways from federal general revenues under the economic stimulus act.]

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 \$67.5 million in federal airport aid in federal fiscal year 2010. 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 each area), 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 aid 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 2010, a total of \$60.9 million in urbanized and nonurbanized area transit formula funds was distributed to Wisconsin transit systems, of which \$21.3 million went directly to Milwaukee and \$7.1 million went directly to Madison. Medium sized systems in the state received \$19.1 million in federal transit formula funds. Under the smaller transit programs, state systems received a total of \$13.4 million. The state also received \$2.4 million in job access reverse commute funds, \$2.3 million in federal elderly and disabled aid, and \$6.9 million in capital assistance, in addition to these federal formula aid amounts.

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 de-

signed to meet those goals. In federal fiscal year 2010, the state received \$4.6 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 2010, the state received \$2.5 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 2010, the state received \$4.5 million in federal funds from a combination of federal motor carrier safety grant programs.

Federal Economic Stimulus Funds

The state received supplemental federal transportation aid, beginning in 2008-09, under the federal American Recovery and Reinvestment Act of 2009. Transportation funds were received under four principal subprograms: (a) highways and bridges; (b) airports; (c) mass transit; and (d) passenger rail. The state also received a few discretionary grants under smaller programs and certain local governments also received discretionary grants for particular projects. None of the federal stimulus transportation grants required a nonfederal share.

Upon passage of the federal economic stimulus act, the Legislature included provisions in 2009 Act 2 that required the Governor to submit a request for approval of the expenditure of economic

stimulus aid to the Joint Committee on Finance, upon receipt of that aid. The Committee could reject, adopt, or modify and adopt the request.

The following is a description of the stimulus aid received by the state in the major subcategories.

Highway and Bridge Aid. The federal legislation distributed a total of \$26.6 billion for highway and bridge aid. Wisconsin received a total of \$529.1 million in highway and bridge stimulus aid. Table 11 shows the allocation of these funds between state highway projects, local highway and bridge projects, and local transportation enhancements projects. [The federal legislation required states to allocate at least 3% of the total (\$15.9 million for Wisconsin) to transportation enhancements projects.]

Table 11: Allocation of Economic Stimulus Funds for Highways and Bridges (In Millions)

Program	
State Highways	\$318.6
Local Highways	153.3
Local Bridges	39.0
Trans. Enhancements	<u>18.2</u>
Total	\$529.1

Airport Aid. The economic stimulus act made available \$1.1 billion for airport improvement projects nationwide. From this amount, the Federal Aviation Administration awarded \$25.9 million for seven airport improvement projects in Wisconsin.

Mass Transit Aid. The economic stimulus act provided funds for transit capital costs, apportioned to states based on the federal urbanized and nonurbanized transit assistance formulas. Based on these formulas, Wisconsin received a total of \$81.3 million in transit funds, which were distributed as follows: \$28.5 million to the Milwaukee urbanized area; \$9.5 million to the Madison urbanized area; \$23.2 million to urbanized areas with transit systems serving a population between 50,000 and 200,000; and \$20.1 million for the nonurbanized areas of the state.

Passenger Rail. The stimulus act provided a total

of \$8.0 billion to be distributed for passenger rail projects. From this amount, the state was awarded two grants, totaling \$822 million, in 2009-10. The larger of the two grants was for \$810 million for the capital costs of establishing a new, high-speed passenger rail service between Milwaukee and Madison, which would operate as an extension of the current Amtrak service between Chicago and Milwaukee. Although Governor Doyle accepted this grant on behalf of the state and the Joint Committee on Finance concurred in this acceptance, Governor-Elect Walker indicated his opposition to the project. In response, Governor Doyle suspended work on the project, and the federal government subsequently reallocated the grant funds to passenger rail projects in other states.

The other grant, for \$12 million, was for two improvements on the existing Chicago to Milwaukee passenger rail route. One involves the construction of crossovers in Kenosha County to facilitate the movement of freight and passenger trains in the Chicago to Milwaukee corridor, and the other is an extension of the train platform at the Milwaukee Airport Rail Station to accommodate longer trains.

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 12 shows this allocation for 2009-10. 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 ap-

Table 12: Allocation of the Three Major Transportation Revenue Sources Among All Functions

	2009-10 Allocation	
	Amount	Percentage
Highway Programs	\$1,551,381,400	51.9%
Local Road Aids	558,995,100	18.7
Debt Service	184,828,900	6.2
Mass Transit Aids	167,754,400	5.6
Railroads, Harbors, and Airports	138,555,700	4.6
General Administration	98,349,900	3.3
General Fund Transfer	84,769,800	2.8
Division of Motor Vehicles	74,363,800	2.5
State Patrol	64,352,600	2.2
Other Programs*	40,229,000	1.3
Non-DOT Programs**	<u>25,482,300</u>	<u>0.9</u>
Total	\$2,989,062,900	100.0%

*Includes the transportation economic assistance program, transportation enhancement and bicycle facilities grant programs, 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.

propriated 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 12, \$1,756,102,000 is from the state transportation fund, \$897,593,200 is federal funds, and \$335,367,700 is bonds.

A different way to analyze expenditure data is to look at the allocation of funding for only DOT programs and debt service. Table 13 shows the allocation of the sum of the three major transportation revenue sources, excluding the general fund transfer and other programs outside of DOT. Of the total shown in Table 13, \$1,645,849,900 is from the transportation fund, \$897,593,200 is federal funds, and \$335,367,700 is bonds.

Table 13: Allocation of the Three Major Transportation Revenue Sources Among DOT Programs

	2009-10 Allocation	
	Amount	Percentage
Highway Programs	\$1,551,381,400	53.9%
Local Road Aids	558,995,100	19.4
Debt Service	184,828,900	6.4
Mass Transit Aids	167,754,400	5.8
Railroads, Harbors, and Airports	138,555,700	4.8
General Administration	98,349,900	3.4
Division of Motor Vehicles	74,363,800	2.6
State Patrol	64,352,600	2.2
Other Programs*	<u>40,229,000</u>	<u>1.4</u>
Total	\$2,878,810,800	100.0%

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

Although the allocation of transportation revenues changes from year to year with the adoption of each budget, Tables 12 and 13 are intended to show something close to the "typical" allocation of transportation revenue sources. For this reason, the federal economic stimulus funds, although a significant source of transportation program spending in both 2008-09 and 2009-10, are excluded because of the one-time nature of that source of funding.