



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

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Joint Committee on Finance

Paper #753

### Use of Transportation Fund Revenues for General Fund Purposes (DOT -- Transportation Finance)

[LFB 2009-11 Budget Summary: Page 601, #5]

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#### **CURRENT LAW**

Transportation fund revenues are generated from a variety of transportation-related taxes and fees. Over 90% of fund revenues are attributable to motor fuel taxes and vehicle registration fees, while driver's license fees, aeronautical taxes and fees, railroad ad valorem taxes, and other miscellaneous fees make up the remainder. With a few exceptions, transportation fund revenues are used for programs administered by the Department of Transportation. The following programs are currently the only expenditures of transportation fund revenues in other agencies (shown with their base funding): (a) transfers to the conservation fund under the motor fuel usage formulas for motorboats (\$13,894,200), snowmobiles (\$4,499,000), and all-terrain vehicles (\$1,877,200); (b) Department of Revenue appropriations for the administration of the motor fuel tax (\$1,522,200), airline and railroad ad valorem taxes (\$223,200), and state vehicle rental fee (\$38,700); (c) a Department of Tourism appropriation for tourism marketing (\$2,200,000); and (d) an appropriation for the distribution of ad valorem taxes on railroad terminal and repair facilities to the local governments where such property is located (\$1,458,900). The base for these non-DOT agency appropriations totals \$25,713,400.

#### **GOVERNOR**

Provide \$31,013,900 SEG annually and delete \$28,370,400 GPR annually to reflect the conversion of three appropriations in the Department of Public Instruction (DPI) and two appropriations in the Department of Natural Resources (DNR) from GPR appropriations to SEG appropriations, funded from the transportation fund.

Require the Secretary of the Department of Administration (DOA) to lapse or transfer \$160,000,000 during the 2009-11 biennium from the unencumbered balances of appropriations to state agencies, other than from sum sufficient and federal appropriations, to the general fund. In its transportation fund condition statement submitted with AB 75, DOA assumed a transfer from the transportation fund to the general fund of \$38,761,200 in 2009-10 and \$38,923,200 in 2010-11.

## DISCUSSION POINTS

1. The following table summarizes the use of transportation fund revenues for general fund purposes under the bill.

	<u>2009-10</u>	<u>2010-11</u>
Appropriation Conversions		
Aid for Pupil Transportation	\$27,019,600	\$27,019,600
Aid for Pupil Transportation--Youth Options Program	19,800	19,800
Aid for Pupil Transportation--Open Enrollment	495,000	495,000
Car-Killed Deer	509,500	509,500
State Park, Forest and Riverway Roads	<u>2,970,000</u>	<u>2,970,000</u>
Appropriation Conversions Subtotal	\$31,013,900	\$31,013,900
Intended Transfers	\$38,761,200	\$38,923,200
Grand Total	\$69,775,100	\$69,937,100
Biennial Total		\$139,712,200

2. The proposed use of transportation fund revenues for general fund purposes would continue a policy established in the 2003-05 biennium and repeated in the 2005-07 and 2007-09 biennia. In all three biennia, transportation fund revenues were either transferred or lapsed to the general fund or were directly appropriated for programs that would have otherwise been funded with GPR. Also, in all three cases, general fund-supported, general obligation bonds were authorized for the highway programs to partially replace the transferred revenues. The following table summarizes the transfers, general obligation bonds, and the debt service paid from the transportation fund in those three biennia plus 2009-11 under AB 75 (dollars are shown in millions). The totals are expressed in terms of the net "loss" to the transportation fund (or net gain to the general fund) as a result of the transfers and appropriations. Although debt service on the bonds is currently paid from the general fund, it was initially paid from the transportation fund in the 2003-05 biennium. This debt service is shown in the table separately, and adds to the transportation loss in that biennium.

	<u>2003-05</u>	<u>2005-07</u>	<u>2007-09</u>	<u>Proposed 2009-11</u>	<u>8-Year Total</u>
Transfers and Appropriations	\$675.0	\$427.0	\$155.0	\$139.7	\$1,396.7
Less Gen. Ob. Bonds	-565.5	-250.0	-50.0	0.0	-865.5
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	\$177.0	\$105.0	\$139.7	\$575.1

3. The two DNR appropriations that would be converted from GPR to SEG had been transportation fund appropriations prior to the 1997-99 biennial budget. That budget converted 21 transportation fund appropriations in non-DOT agencies to GPR funding, including state park, forest, and riverway roads, and car-killed deer. Consequently, for these appropriations, the bill would reduce the amount of transportation fund revenues available for DOT programs by \$3,479,500 annually in the 2009-11 biennium, but this would restore the former funding source for these programs. (The car-killed deer program is also funded with an appropriation of an equal amount from the fish and wildlife account of the conservation fund, which would not be affected by this item.)

4. In addition to converting the state park, forest, and riverway roads appropriation from GPR to SEG, the bill would increase funding for that program by \$2,648,600 annually, from \$321,400 to \$2,970,000. The Department of Natural Resources had requested \$3,000,000 annually from the transportation fund for the program in its budget request. DNR indicated that it has identified a maintenance project backlog on its 1,000 miles of road, with an estimated cost of at least \$12,000,000. Of the requested funding, \$2,000,000 annually would be used for maintenance on these roads, an amount that was based roughly on the mileage aid rate under the general transportation aid program. The remaining \$1,000,000 annually would be provided to local governments with roads within or near DNR properties. The bill would provide the requested funding, subject to a 1% reduction.

5. Under current law, the DNR appropriation for state park, forest, and riverway roads restricts the amount that can be allocated to local roads within and adjacent to DNR property to \$400,000 annually. If the Committee approves of the Governor's recommendation to provide additional funding for DNR road maintenance and local roads within or near DNR properties, in roughly the same proportion proposed by the Department, this provision could be amended to increase the limit to \$1,000,000. The decision on whether or not to provide additional funding for state park, forest, and riverway roads [Alternative #B1 or #B3] could be made independently of the decision regarding the funding source for this program. If the Committee decides to retain the current \$400,000 annual limit for local roads, the additional funding could be reduced by \$600,000 annually [Alternative #B2].

6. The DPI appropriations for pupil transportation programs have always been funded from the general fund, although on two occasions transportation fund revenues have been used on a one-time basis to supplement GPR funding for pupil transportation. In 1983-84, \$10.9 million was provided from the transportation fund for pupil transportation and, in 1992-93, \$3.8 million was provided for handicapped pupil transportation.

7. Proponents of converting the DPI and DNR appropriations to the transportation fund may point to their connection to transportation as a justification. From this perspective, the DNR roads and car-killed deer programs are related to maintenance and operations of the overall state road system and, therefore, proponents of the conversion argue that they should be supported with transportation-related user fees. Similarly, DPI's pupil transportation programs offer a general transportation service, so these proponents argue that it is appropriate to use transportation-related

taxes as a funding source.

8. Opponents of the appropriation conversion maintain that the transportation fund should be reserved for the most pressing needs in the construction and maintenance of the state and local transportation infrastructure. Given the demand for funding for state highway improvement programs, the diversion of a portion of transportation fund revenues to other programs decreases the state's ability to address those needs.

9. Any program that has both a transportation-related purpose and a general, public interest purpose could be funded from either fund, and advocates of either position can offer plausible arguments in support of their position. However, the decision on which fund to use typically rests more on the relative importance that one places on other uses of the two funds. For instance, advocates of greater spending for transportation infrastructure are likely to make the case that the responsibility for funding a program like pupil transportation belongs with the general fund, since that decision would allow more funding to be used on transportation infrastructure. Likewise, advocates of a particular general fund program may take the opposite position because it would allow more general fund revenues to be spent on that particular program. The Committee's decision on the appropriation conversion may be dependent more upon the relative availability and funding demands in the respective funds, rather than the appropriations' connection to transportation.

10. Unlike the appropriation conversion, the proposal to transfer \$38,761,200 in 2009-10 and \$38,923,200 in 2010-11 from the transportation fund to the general fund is not based on a policy argument that a particular general fund program or programs should be supported with transportation fund revenues. Instead, the transfer is part of an initiative to generate a total of \$160,000,000 over the biennium for the general fund through lapses and transfers from state agencies.

11. Although the transportation fund condition statement prepared by DOA for the bill indicates an intention to transfer these specific amounts to the general fund from the transportation fund, the bill would not specify how much of the \$160,000,000 would be from the transportation fund. Consequently, DOA would have the authority to transfer higher or lower amounts. If the Committee agrees with the Governor's recommendation to transfer funding from the transportation fund to the general fund, but wants to ensure that the amount is not changed, the bill could be amended to create a transportation fund appropriation for making the transfer and provide \$38,761,200 in 2009-10 and \$38,923,200 in 2010-11 in this appropriation. The appropriation could be repealed at the end of the biennium to reflect the intent that the amount provided in 2010-11 is not a recurring transfer. This alternative would also involve the following changes: (a) reducing the required \$160,000,000 total lapsed to \$82,315,600 to reflect that the proposed transfer from the transportation fund would be made with a transfer appropriation rather than through a lapse; and (b) excluding the Department of Transportation and the transportation fund from the lapse requirement, to reflect that the transfer would be made under a different provision [Alternative #A2].

12. If the Committee decides to maintain the lapse provision as recommended by the Governor, a technical correction would be required to allow the transfer of funds from the balance in the transportation fund (as well as other SEG funds and PR accounts). This change could be

made when the Committee acts on a subsequent paper prepared on this issue, under "Budget Management and Compensation Reserves."

13. Both the appropriation conversions and the transfer of transportation fund revenues to the general fund have the impact of reducing the amount of funding available for transportation programs and increasing available general fund revenues. The two initiatives differ, however, in that the fund transfer would only apply to the two years of the biennium, while the appropriation conversion would have an ongoing effect. If the Committee determines that transportation fund revenues should be used to help balance the general fund budget, but decides that this assistance should not have an ongoing effect, an alternative would be to delete the appropriation conversions, but increase the appropriation transfer by the amount that the bill would appropriate for the DNR and DPI appropriations [Alternative #A3]. This would increase the transfer appropriation created under the alternative discussed in Point #11 by varying amounts, depending on the Committee's decision related to the proposed increase to the DNR appropriation for state park, forest, and riverway roads.

14. If the Committee approves of the use of transportation fund revenues to help balance the general fund budget, but does not want to affect the amount of funding available for transportation programs, the amount of transportation fund revenues used for general fund purposes could be replaced with general fund-supported bonds. This would be similar to actions the Legislature took in the 2003-05 through 2007-09 biennia. To replace the full amount from both the appropriation conversions and the transfer, a bond authorization of \$139,712,200 would be required. This amount could be provided for state highway rehabilitation projects, and the Committee could make subsequent adjustments to the SEG appropriation for that program to transfer a portion of the funding increase to other DOT programs. Assuming that the bonds would be used equally in each year, general fund debt service would be an estimated \$363,800 GPR in 2009-10 and \$4,493,600 GPR in 2010-11. Once fully issued, debt service would be approximately \$15.1 million annually for 10 years and then would decline to about \$3.6 million annually for another 10 years [Alternative #C1].

## **ALTERNATIVES**

### **A. Use of Transportation Fund Revenues for General Fund Purposes**

1. Approve the Governor's recommendation to: (a) provide \$31,013,900 SEG annually and delete \$28,370,400 GPR annually to reflect the conversion of three appropriations in the Department of Public Instruction and two appropriations in the Department of Natural Resources from GPR appropriations to SEG appropriations, funded from the transportation fund; and (b) reflect a transfer of \$38,761,200 in 2009-10 and \$38,923,200 in 2010-11 from the transportation fund to the general fund. [The SEG increase under this alternative would be \$30,413,900 annually if Alternative #B2 is chosen or \$28,365,300 annually if Alternative #B3 is chosen.]

2. Modify the Governor's recommendation by replacing the bill's lapse provisions, as they relate to transportation, with an appropriation transfer, by adopting the following: (a) provide

\$38,761,200 SEG in 2009-10 and \$38,923,200 SEG in 2010-11 in a new, transportation fund appropriation for making a transfer to the general fund; (b) repeal the appropriation on June 30, 2011; (c) reduce the required \$160,000,000 total lapse from state agencies to \$82,315,600; and (d) exclude the Department of Transportation and the transportation fund from the lapse requirement.

ALT A2	Change to Bill	
	Revenue	Funding
SEG		\$77,684,400
SEG-Transfer		- \$77,684,400

3. Modify the Governor's recommendation by deleting the conversion of three DPI appropriations and two DNR appropriations from GPR to SEG, and, instead, provide \$31,013,900 SEG annually in a new, transportation fund appropriation for making a transfer from the transportation fund to the general fund (in addition to or instead of the amount provided under Alternative #A2). [The GPR amount provided under this alternative would be reduced to \$30,413,900 annually if Alternative #B2 is chosen or to \$28,365,300 annually if Alternative #B3 is chosen.]

ALT A3	Change to Bill	
	Revenue	Funding
GPR	\$62,027,800	\$62,027,800

4. Delete the proposed appropriation conversion. [The GPR amount provided under this alternative would be reduced to \$30,413,900 annually if Alternative #B2 is chosen or to \$28,365,300 annually if Alternative #B3 is chosen.]

ALT A4	Change to Bill	
	Revenue	Funding
SEG		-\$62,027,800
GPR		<u>62,027,800</u>
Total		\$0

5. Delete the proposed transfer from the transportation fund to the general fund and exclude the Department of Transportation and the transportation fund from the \$160,000,000 lapse requirement.

ALT A5	Change to Bill	
	Revenue	Funding
GPR	- \$77,684,400	
SEG-Transfer		- \$77,684,400

**B. State Park, Forest, and Riverway Road Funding**

1. Approve the Governor's recommendation to provide \$2,648,600 SEG annually for the DNR state park, forest, and riverway road appropriation, and modify the bill to specify that up to \$1,000,000 annually may be spent from the appropriation for local roads within or adjacent to DNR property. [This funding increase would be provided with GPR if the Committee adopts Alternatives #A3 or #A4.]

2. Modify the Governor's recommendation by deleting \$600,000 SEG annually for the DNR state park, forest, and riverway road appropriation. [The net funding increase of \$2,048,600 annually would be provided with GPR if the Committee adopts Alternatives #A3 or #A4.]

<b>ALT B2</b>	<b>Change to Bill Funding</b>
SEG	-\$1,200,000

3. Delete the Governor's proposed increase for state park, forest, and riverway roads.

<b>ALT B3</b>	<b>Change to Bill Funding</b>
SEG	-\$5,297,200

**C. Replacement Bonds**

1. Authorize \$139,712,200 in general fund-supported, general obligation bonds for the state highway rehabilitation program. Provide \$363,800 GPR in 2009-10 and \$4,493,600 GPR in 2010-11 to reflect estimated debt service on these bonds. [This alternative reflects the full replacement of transportation fund revenues used for general fund purposes, but could be modified if the Committee decides to use a different amount of transportation fund revenues for this purpose or provide a different amount of replacement bonds.]

<b>ALT C1</b>	<b>Change to Bill Funding</b>
BR	\$139,712,200
GPR	<u>4,857,400</u>
Total	\$144,569,600

2. Maintain current law.

Prepared by: Jon Dyck