Transportation Finance

Informational Paper 37

Wisconsin Legislative Fiscal Bureau
January, 2013

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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 2011-12 fiscal year, since certain data for 2012-13 remained incomplete at the time of publication.

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 (including transfers from other funds) of about $1.8 billion in the 2011-12 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. Following the addition of the ad valorem tax collections, no major changes were made to the makeup of the transportation fund until the passage of the 2011-13 budget, which began the annual transfer of a percentage of general fund taxes to the fund.

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 2011-12. 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 2011-12). 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: 2011-12 Transportation Fund Revenue Collections by Source

Source	Amount	Percent of Total
Motor Vehicle Fuel Tax	$983,859,800	54.9%
Vehicle Registration Fees	634,077,300	35.4
Transfers from Other Funds	48,639,000	2.7
Driver License Fees	40,802,600	2.3
Other Motor Vehicle Fees	27,627,100	1.5
Railroad Ad Valorem Tax	28,089,500	1.6
Aeronautical Taxes and Fees	7,619,900	0.4
Miscellaneous Revenue	21,634,300	1.2
Investment Earnings	-186,100*	--
Total	$1,792,163,400	100.0%

* Banking fees exceeded gross interest earnings, producing a net negative total in this category. Percentages shown are net of this reduction.

Table 2 shows the annual amount of gross transportation fund revenues collected since 2001-02, the annual percentage growth of those amounts and the 10- and five-year average, compound 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, automatic indexing of the fuel tax rate (up until 2005-06), and, more recently, transfers from other state funds.

Table 2: Gross Transportation Fund Revenue History

Fiscal Year	Total Gross Revenue	Percent Increase
2001-02	$1,337,655,400	
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
2010-11	1,739,924,200	1.5
2011-12	1,792,163,400	3.0
10-Year Average		3.0
5-Year Average		2.1

To help illustrate the relative impact on revenue growth of increases in transportation activities ("natural" growth) versus growth from tax and fee changes or transfers, 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 55% of gross fund revenues, has grown by an average of just 0.15% over the past 10 years, considerably below the general rate of inflation, and has declined by an average of 0.39% in the past five years. Vehicle registration counts

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

	Motor Fuel		Automobiles		Light Trucks		Heavy Trucks	
Fiscal Year	Gallons	% Change	Number	% Change	Number	% Change	Number	% Change
2001-02	3,150.0		3,224.9		846.1		181.2	
2002-03	3,204.6	1.7%	3,286.7	1.9%	861.0	1.8%	190.7	5.3%
2003-04	3,273.2	2.1	3,323.6	1.1	878.7	2.1	201.5	5.6
2004-05	3,269.9	-0.1	3,362.8	1.2	894.8	1.8	214.0	6.2
2005-06	3,195.6	-2.3	3,414.8	1.5	902.6	0.9	230.0	7.5
2006-07	3,259.8	2.0	3,476.6	1.8	910.4	0.9	230.6	0.2
2007-08	3,244.7	-0.5	3,521.2	1.3	907.1	-0.4	237.1	2.8
2008-09	3,146.6	-3.0	3,506.7	-0.4	894.7	-1.4	233.3	-1.6
2009-10	3,144.5	-0.1	3,516.3	0.3	891.8	-0.3	232.6	-0.3
2010-11	3,212.1	2.1	3,520.7	0.1	887.0	-0.5	233.4	0.3
2011-12	3,196.0	-0.5	3,531.0	0.3	884.2	-0.3	236.3	1.2
10-Year Average		0.1%		0.9%		0.4%		2.7%
5-Year Average		-0.4%		0.3%		-0.6%		0.5%

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 10-year average. By contrast, the total revenue growth rates shown in Table 2 are considerably higher (about 3% in the 10-year average and 2% in the five-year average). This indicates that most of the revenue growth has occurred as the result of tax and fee increases or from transfers from other funds.

Transportation Fund Taxes, Fees, and Other Revenue Sources

This section of the paper describes 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 54.9% of gross revenues in 2011-12. 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 29.9 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 propane gas, 24.7 cents per gallon for compressed natural gas, and 19.7 cents per gallon for liquefied 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 Fees" 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 ($69.50 for most transactions), 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.

Transfers from Other Funds. Over the past few biennia, revenues from traditional transportation user fees have been supplemented with one-time and ongoing transfers from other state funds. In the 2011-13 biennium, the transportation fund receives transfers from the general fund and the petroleum inspection fund.

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

From the general fund, the Legislature made a one-time transfer of $125 million to the transportation fund ($22.5 million in 2011-12 and $102.5 million in 2012-13). In addition, the 2011-13 budget act included a provision making an ongoing, annual transfer to the transportation fund, beginning in 2012-13. The transfer is equal to 0.25% of general fund taxes, as published in the general fund condition statement in the budget act, with a minimum transfer of $35,127,000. In 2012-13, the minimum transfer provision applies since 0.25% of the published general fund tax total is $34,448,000, or slightly below the minimum.

Since 2004-05, another transfer has been made from the general fund to compensate the transportation fund for revenue lost due to an ad valorem tax exemption for property owned by airlines that operate a hub facility in the state. The transfer is 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. Midwest

Airlines ceased to be an operating entity in 2009, following the purchase of its operations by Republic Airlines. Subsequent to that purchase, the transfer was reduced to $380,400 in 2011-12, the amount of tax previously paid by Republic Airlines and other airlines acquired by Republic. [Because Midwest Airlines ceased to exist, the transfer that had been made to reflect the exemption for that airline was ended.]

In addition to transfers from the general fund, the transportation fund has received, or continues to receive, one-time and ongoing transfers from the petroleum inspection fund. An annual transfer of $6,258,500 has been made from this fund since 2004-05. Originally, the intent of this transfer 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 is currently nearly twice the amount of the total appropriation for the emissions inspection program ($3,193,300 annually in the 2011-13 biennium).

This ongoing transfer was supplemented by one-time transfers from the petroleum inspection fund in the 2009-11 and 2011-13 biennia. Budgets for those two biennia transferred surplus revenues in that fund to the transportation fund as follows: (a) $10,000,000 in 2009-10; (b) $17,800,000 in 2010-11; and (c) $19,500,000 annually in 2011-12 and 2012-13. Surpluses in the petroleum inspection fund were generated largely as the result of the deferral of principal payments on petroleum inspection program debt, and funding reductions for petroleum environmental cleanup fund awards.

The transfers from the general fund and the petroleum inspection fund are distinct from transfers or lapses of transportation fund revenues to the general fund, which occurred in several recent biennia as a means of balancing the general fund budget. These transfers are discussed in greater detail in a separate section below.

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 the 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.

Railroad Ad Valorem Tax. Property owned by railroads is exempt from local property taxes and is subject, instead, to a state ad valorem tax. The value of railroad companies is determined on a systemwide basis, and then a portion is allocated to Wisconsin based upon each railroad's activity in the state. The Wisconsin portion of the railroad's property is taxed at the statewide average tax rate for property subject to local property taxes, net of state tax credits. In 2012, there were 10 railroad companies that paid the tax.

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 net tax rate. Airlines that operate a hub facility in the state are exempt from paying the ad valorem tax. In 2012, there were 21 airlines that paid this tax.

In 2011-12, the ad valorem tax on commercial airline property accounted for 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 airline 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.

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.

Investment Earnings. Investment earning revenue is generated on the cash 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. In 2011-12, however, banking fees exceeded investment earnings, producing a net negative revenue in this category.

Use of Transportation Fund Revenues for General Fund Purposes

Between the 2003-05 and 2009-11 biennia, transportation fund revenues were used as part of a strategy to balance the general fund budget, although the mechanism for these transactions 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 higher than the replacement bonds in all cases except the 2009-11 biennium. In the 2011-13 biennium, no such transfers were made, although additional general fund-supported bonds were issued for state highway programs. 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. In addition, other budget measures resulted in administrative lapses totaling $7.6 million from transportation fund appropriations to the general fund. 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 transportation fund to specific general fund programs. In addition, other provisions resulted in an administrative lapse of $4.7 million from DOT appropriations to the general fund. 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 provided $50.0 million in general fund-supported bonds 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 were 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. 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.

Under these provisions, DOA lapsed a total of $125.6 million in the 2009-11 biennium from transportation fund appropriations or from unappropriated transportation fund balances ($84.8 million in 2009-10 and $40.8 million in 2010-11).

For the 2009-11 biennium, $204.7 million in general fund-supported bonds were authorized for the state highway rehabilitation program. Consequently, unlike in prior years, transportation programs received a net gain from the transfer provision in the biennium.

2011-13 Biennium. As noted earlier, there was no transfer from the transportation fund to the general fund included in the 2011-13 budget. Instead, the budget act provided $115.4 million in general fund-supported bonds for the state highway rehabilitation program, and provided for a total of $160.1 million in ongoing and one-time transfers from the general fund to the transportation fund.

Table 5 summarizes the transfers, general ob-

Table 5: Net Loss of Transportation Revenues Due to Transfers for the 2003-05 through 2011-13 Biennia ($ in Millions)

	2003-05	2005-07	2007-09	2009-11	2011-13	10-Year Total
Transfers and Appropriations	$682.6	$431.7	$162.0	$125.6	$0.0	$1,401.9
Less Gen. Ob. Bonds	-565.5	-250.0	-50.0	-204.7	-115.4	-1,185.6
Less Reverse Transfers	0.0	0.0	0.0	0.0	-160.1	-160.1
Plus Trans. Fund Debt Service	43.9	0.0	0.0	0.0	0.0	43.9
Total	$161.0	$181.7	$112.0	-$79.1	-$275.5	$100.1

ligation bonds, reverse transfers, and the debt service paid from the transportation fund, for the 2003-05 through 2011-13 biennia. 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 totals in 2009-11 and 2011-13 represent a net gain to transportation programs in those biennia.] The total loss to the transportation fund over the 10 years equals $100.1 million.

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 these types of bonds and includes a discussion of the transportation fund 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

Table 6: Transportation Revenue Bond Appropriations

Fiscal Year	Major Hwy. Development	Admin. Facilities	Total
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
2011-12	154,721,600	5,940,000	160,661,600
2012-13	159,721,600	5,940,000	165,661,600

administrative facilities projects over a 10-year period. Over this period, revenue bond usage averaged $164.6 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.

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 transportation fund-supported, 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 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 2011-13. 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. The 2009-11 biennial budget also provided general obligation bonds for the major interstate bridge program, for the eventual construction of a new Stillwater bridge, a crossing of the St. Croix River in northwestern Wisconsin. The bond authorization in the table does not include the general fund-supported, general obligation bonds discussed earlier.

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.

Table 7: Transportation Fund-Supported General Obligation Bond Authorization

Biennium	Freight Rail Projects	Harbor Projects	SE Wisconsin Freeway Projects	Other State Highway Projects	Stillwater Bridge	Total
2003-05	$4,500,000	$3,000,000	$0	$0	$0	$7,500,000
2005-07	12,000,000	12,700,000	213,100,000	0	0	237,800,000
2007-09	22,000,000	12,700,000	90,200,000	0	0	124,900,000
2009-11	60,000,000	12,700,000	250,250,000	110,000,000	225,000,000	657,950,000
2011-13	30,000,000	10,700,000	151,200,000	131,000,000	0	322,900,000

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 to 1 (or 2.25:1) 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 2.5:1 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 2.5:1 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 10-year period. As the table shows, coverage ratios have been maintained at or 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
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
2010-11	179.6	603.5	3.4:1
2011-12	194.5	634.1	3.3:1

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 2002-03.

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
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
2010-11	197.2	1,739.9	11.3
2011-12	240.7	1,792.2	13.4

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.

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 $692.6 million in aid in federal fiscal year 2012. 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 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 2011-12 under the 2011-13 biennial budget act. Based on estimates available during budget deliberations, the budget act allocated a total of $715.3 million among DOT appropriations. Although this exceeds the amount of federal highway aid actually received in the corresponding federal fiscal year, the difference between the budget estimate and the amount actually received was less than 5%, so the Joint Committee on Finance adjustment procedure did not occur. In these circumstances, the Department makes compensating adjustments to expenditures to account for the difference. Since the federal fiscal year falls into two different state fiscal years, such adjustments do not al-

Table 10: Budgetary Allocation of Federal Highway Aid for 2011-12

State Appropriation	Amount
State Highway Rehabilitation	$395,238,000
Southeast Wisconsin Freeway Megaprojects	95,053,100
Major Highway Development	78,263,500
Local Transportation Facility Assistance	72,272,900
Local Bridge Assistance	24,409,600
Departmental Operations	12,854,500
Congestion Mitigation/Air Quality Improvement	11,619,000
Transportation Enhancements	6,251,600
Rail Passenger Service	4,300,000
Administration and Planning	3,685,400
Railroad Crossing Improvements	3,291,800
Safe Routes to School	3,230,100
Bicycle and Pedestrian Facilities	3,720,000
Highway Maintenance	1,102,900
Total Federal Highway Aid	$715,340,300

ways involve reductions below state fiscal year appropriations. The state received additional aid in the final months in federal fiscal year 2011(falling in state fiscal year 2011-12), allowing the Department to avoid expenditure reductions.

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, Congress has transferred federal general fund revenue to the highway trust fund in recent years to compensate for falling federal highway account revenue collections.

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 $77.2 million in federal airport aid in federal fiscal year 2012. 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 2012, a total of $60.0 million in urbanized and nonurbanized area transit formula funds was distributed to Wisconsin transit systems, of which $21.0 million went directly to Milwaukee and $7.1 million went directly to Madison. Medium-sized systems in the state received $18.4 million in federal transit formula funds. Under the transit programs for smaller areas, state systems received a total of $13.5 million. The state also received $2.4 million in job access reverse commute funds, $2.3 million in federal elderly and disabled aid, and $11.8 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 designed to meet those goals. In federal fiscal year 2012, 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 concentrations. In 2012, the state received $1.6 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 2012, the state received $4.6 million in federal funds from a combination of federal motor carrier safety grant programs.

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 2011-12. 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 bond 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 the 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, $1,738,481,400 is from the state transportation fund, $844,880,900 is federal funds, and $459,363,100 is bonds.

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

	2011-12 Allocation	
	Amount	Percentage
Highway Programs	$1,629,607,100	53.6%
Local Road Aids	569,419,300	18.7
Debt Service	240,743,100	7.9
Mass Transit Aids	172,220,200	5.7
Railroads, Harbors, and Airports	124,786,600	4.1
General Administration	95,950,000	3.2
Division of Motor Vehicles	77,256,300	2.5
State Patrol	70,122,900	2.3
Other Programs*	37,565,800	1.2
Non-DOT Programs**	25,054,100	0.8
Total	$3,042,725,400	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.