



Legislative Fiscal Bureau

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May 31, 2007

Joint Committee on Finance

Paper #788

Major Highway Development Funding (DOT -- State Highway Program) Revenue Bond Authorization (DOT -- Transportation Finance)

Bill Agency

[LFB 2007-09 Budget Summary: Page 544, #5 and Page 534, #13]

CURRENT LAW

The major highway development program is responsible for the expansion of existing state highways and the construction of new highways, except for expansion and construction projects on the southeast Wisconsin freeway system. Major highway development projects, which must be enumerated in the statutes prior to construction, are defined as projects that have an estimated cost exceeding \$5,000,000 in current dollars and consist of at least one of the following: (a) construction of a new highway 2.5 miles or more in length; (b) relocation of 2.5 miles or more of existing roadway; (c) the addition of one or more lanes at least five miles in length; or (d) the improvement of 10 miles or more of an existing divided highway to freeway standards. Base funding for the program is \$298,843,700, which includes \$73,141,500 SEG, \$78,975,000 FED, and \$146,727,200 SEG-S (revenue bonds).

Transportation revenue bonds have been used in the major highway development program since 1984 (as well as for construction projects on DOT-owned administrative facilities). The Department has authority to use current cash balances in the transportation fund to finance projects in lieu of bond proceeds and then bonds are issued to replenish the cash balances as needed. The amount of bonds authorized each biennium is based on the proposed use of bond proceeds for major highway development and administrative facility projects in that biennium. However, an additional increment of bonding is typically authorized for use in the year following the biennium to allow projects begun in the biennium to be continued in that next year in case the passage of the next budget is delayed. In addition, since the timing of bond issuance needed to maintain a stable cash balance can not always be predicted with complete

accuracy, the additional authorization gives the Department a cushion in the event that more bonds must be issued during the biennium than expected to maintain a stable transportation fund cash balance. Debt service on transportation revenue bonds is paid from receipts of vehicle registration fees and other vehicle-related fees. Amounts of these revenues that are not needed to pay debt service are deposited in the transportation fund.

GOVERNOR

Provide funding increases of \$4,475,300 in 2007-08 and \$9,017,900 in 2008-09 for the major highway development program, which is the net effect of increases in the use of transportation revenue bonds (SEG-S) and decreases in the use of SEG funds for the program, as follows: (a) an increase of \$19,011,100 SEG-S and a decrease of \$14,535,800 SEG in 2007-08; and (b) an increase of \$20,668,400 SEG-S and a decrease of \$11,650,500 SEG in 2008-09.

Provide increased revenue bonding authority of \$383,963,100 for major highway development projects and administrative facilities.

DISCUSSION POINTS

1. This paper presents information on the funding for the major highway development program and the authorization of bonds for the program. Although the major highway development program is the biggest user of transportation bonds, transportation fund-supported bonds are also used for freight rail projects, harbor improvement projects, the construction of DOT-owned administrative facilities and, more recently, for southeast Wisconsin freeway rehabilitation projects. In making a decision about the level of bonding used for the major highway development program, the Committee may wish to consider the overall level of transportation bonding and resulting debt service. For this reason, this paper includes a discussion of the use of bonding as it relates to all transportation programs.

2. The funding provided for the major highway development program would amount to increases of 1.5% annually. The following table shows the total funding for the program in each year of the biennium, by funding source. The totals are affected by the proposed funding increase, but also by standard budget adjustments (\$62,500 SEG annually).

Proposed Funding for the Major Highway Development Program Under the Bill

<u>Fund</u>	<u>2006-07 Base</u>	<u>Governor</u>	
		<u>2007-08</u>	<u>2008-09</u>
SEG	\$73,141,500	\$58,668,200	\$61,553,500
FED	78,975,000	78,975,000	78,975,000
SEG-S	<u>146,727,200</u>	<u>165,738,300</u>	<u>167,395,600</u>
Total	\$298,843,700	\$303,381,500	\$307,924,100

3. Under the bill as submitted, the estimated, biennium-ending balance in the transportation fund was \$30,919,600. Subsequent to the introduction of the budget bill, the Department of Administration issued an errata, indicating that the Governor's intent was to leave a balance of approximately \$3.0 million. Consequently, the Governor recommends that a portion of the projected ending balance be used to provide additional increases to the major highway development program, as well as the state highway rehabilitation and local transportation aid programs. Under this recommendation, the major highway development program would be provided additional increases of \$1,531,800 SEG in 2007-08 and \$4,046,500 SEG in 2008-09, which would result in total increases above the base of 2.0% annually. [Under the revenue reestimates described in LFB Issue Paper #760, the ending balance under SB 40 is now estimated at \$99,814,900.]

4. Global Insight, Inc., projects increases in the consumer price index of 1.8% for calendar year 2007, 2.1% for 2008, and 1.9% for 2009. Consequently, the Governor's revised recommendation to provide a 2.0% annual increase for the major highway development program would approximate the projected level of general inflation for the biennium.

5. Over the last six biennia, the major highway development program has received funding increases that are, on average, above the general rate of inflation. Typically, the pattern has been periodic large increases followed by more stable funding. For instance, the program received a 20.7% increase in 1997-98 and a 22.5% increase in 2006-07, but several of the intervening years saw below-inflationary increases. The following table shows the total, annual funding for the program over the past twelve years, including the annual percentage increase. Over the twelve-year period shown, the average, annual increase was 5.5%, while the general rate of inflation averaged 2.6% over that period (excluding 2006-07, which is incomplete). Over the past 10 years (which excludes the 1997-98 increase), the average, annual increase for the major highway development program has been 4.1%, which is still above the average general rate of inflation for that period (also 2.6%).

Total Funding for the Major Highway Development Program Since 1995-96

<u>Fiscal Year</u>	<u>Total Funding</u>	<u>Percentage Increase</u>
1995-96	\$165,554,900	--
1996-97	161,955,400	-2.2%
1997-98	195,421,600	20.7
1998-99	207,368,500	6.1
1999-00	219,504,400	5.9
2000-01	220,013,900	0.2
2001-02	231,927,400	5.4
2002-03	241,616,600	4.2
2003-04	239,700,000	-0.8
2004-05	242,938,500	1.4
2005-06	243,950,100	0.4
2006-07	298,790,500	22.5
Twelve-Year Average, Annual Funding Increase		5.5%

6. Since the program received a 22.5% increase in 2006-07, some may argue that inflationary adjustments in the 2007-09 biennium are not needed to maintain the funding for the program at near historic growth rates over time. With the 1.5% annual increases under the bill, annual funding increases for the program would average 4.9% over the 14-year period from 1995-96 to 2008-09.

7. While an analysis of percentage growth rates in the funding for a program may be useful for providing a general sense of the funding trends in relation to the growth of other programs or growth in total revenues, it does not necessarily provide a basis for weighing the program's funding against various program objectives.

8. A significant factor affecting the ability of the major highway development program to achieve its objectives is the recent increase in the cost of highway construction. Over the past three years, the cost of highway construction has increased at a much higher rate than the general rate of inflation. Between 2003 and 2006, the Bureau of Labor Statistics' national producer price index for highway construction increased by 35.3%, while the consumer price index increased during the same period by just 9.6%. When this occurs, the program loses purchasing power even if its funding is increased by the general rate of inflation.

9. Although the cost of highway construction has exceeded the general rate of inflation over the past three years, it is difficult to project if this trend will continue. The cost of highway construction tends to be more volatile than the general rate of inflation and even has periods of declining costs. The following table shows the general rate of inflation compared to the Bureau of Labor Statistics' producer price index for highway construction since 1996. Over the period shown in the table, the average, annual increase in the highway construction index has been 4.2%, versus the average, annual change of 2.5% in the consumer price index. This difference, however, is heavily influenced by the past three years. Between 1996 and 2003, the consumer price index increased at a faster average rate than the highway construction index (2.3% versus 1.6%).

**Comparison of the Consumer Price Index and the
Bureau of Labor Statistics' Highway Construction Price Index**

<u>Year</u>	<u>Consumer Price Index</u>	<u>Highway Construction Price Index</u>
1996	2.9%	3.1%
1997	2.3	2.0
1998	1.6	-0.9
1999	2.2	2.5
2000	3.4	7.8
2001	2.8	0.4
2002	1.6	-2.4
2003	2.3	2.2
2004	2.7	8.5
2005	3.4	12.6
2006	3.2	10.8
Average, Annual Change	2.5%	4.2%

10. In August, 2006, the Department reevaluated the cost of the enumerated major highway development projects and determined that the total cost of the current projects had increased by 11.6% above previous estimates, largely because of increases in the cost of construction. Consequently, the completion dates of several projects have been delayed, relative to prior schedules, despite the significant funding increase in 2006-07. Compared to a project schedule from December, 2004, the completion dates on two projects were delayed due to increasing costs on all projects (USH 12 in Sauk County and STH 23 in Fond du Lac and Sheboygan counties). Although the four projects enumerated in the 2003-05 budget had not yet been scheduled in 2004, either the starting or completion date of these projects have also been affected, relative to the Department's March, 2006, schedule. The attachment to this paper shows the current list of enumerated projects, the estimated remaining cost of each project, and the final year for which DOT has scheduled a construction contract letting (which is not necessarily the year the project will be completed).

11. It should be noted that project delays are not necessarily or entirely the result of funding issues. For instance, a project involving USH 53 in La Crosse was delayed in the Department's latest schedule, but this was largely due to lack of a local consensus on the project, and not funding constraints. In other cases, funding constraints may make delays necessary, but various other factors may be used to determine which projects are delayed. For instance, the STH 23 project in Fond du Lac and Sheboygan counties was enumerated by the Legislature without having been considered or recommended by the Transportation Projects Commission (TPC). Consequently, the Department indicates that the project was not as far along in the study process as projects typically are when they are considered by the TPC. Since final design for the project can not be started until the environmental impact statement is completed, other projects for which the environmental process has been completed could proceed ahead of the STH 23 project.

12. Unless construction costs substantially decline in the next several years, above-inflationary funding increases would be needed to advance the completion dates of currently enumerated projects. One funding benchmark that could be used for the program is the recommendations of the Joint Legislative Committee on Transportation Needs and Financing, commonly known as the "Road to the Future Committee." In December, 2006, that Committee issued its final report, recommending funding increases in several key surface transportation programs. For state highway programs, the Committee recommended that the highway improvement programs (the major highway development, state highway rehabilitation, and southeast Wisconsin freeway rehabilitation programs) be funded at the level needed to achieve the goals of the Department of Transportation's Highway Plan 2020. That highway plan outlined a scenario that would increase highway program funding for the 21-year period between 2000 and 2020 to achieve a set of highway improvement goals related to pavement and bridge condition, congestion relief, and safety. The state has now budgeted for eight of the 21 years of the planning period, but funding levels during that time have fallen below the Highway Plan 2020 recommended levels. Consequently, the funding recommendations of the "Road to the Future Committee" were intended to both meet the plan's annual recommended funding levels and make up for the fact that funding during the first eight years of the planning period fell below the plan's recommendations. Furthermore, since highway construction inflation has reduced the programs' purchasing power, a

large part of the Committee's recommended increase would be to compensate for that loss.

13. The "Road to the Future Committee's" recommended, annual increase for all the highway improvement programs totals \$544.6 million, in 2006 dollars. The amount of that total associated with the major highway development program is \$73.5 million. However, since this amount is expressed in 2006 dollars, it would have to be increased by the rate of highway construction inflation to maintain the purchasing power recommended by the Committee. For the purpose of making this adjustment, it could be assumed that construction inflation will continue to increase in the next two years, but at the more moderate rate of 2.0% annually. Under this assumption, the program would have to be increased by \$80,937,200 in 2007-08 and \$88,523,100 in 2008-09. Relative to the bill, this level of funding would require increases of \$76,461,900 in 2007-08 and \$79,505,200 in 2008-09.

14. Another funding alternative for the major highway development program would be to provide the annual level of funding recommended by DOT's long-range highway plan, but not provide an additional amount to compensate for the prior eight years in which funding fell below those recommended levels. Under this alternative, the program would reach the plan's recommended, annual investment level, but the program would not accomplish the plan's highway improvement goals by 2020. This would require increases, relative to the bill, of \$43,373,000 in 2007-08 and \$45,754,500 in 2008-09.

15. The "Road to the Future Committee's" recommendations were based on achieving the goals of DOT's most recent long-range highway plan, which was completed in 2000. Over time, changing conditions and policy priorities can alter the assumptions that are used to develop long-range transportation plans. The Department is currently in the process of developing a new long-range transportation plan that will replace the 2000 plan. However, this plan, known as "Connections 2030," will not be complete until later in the year, likely after the Committee completes its deliberations on the budget.

16. While a decision on funding for the major highway development program could be based on the amounts needed to achieve program objectives, such as completing existing and future projects on a certain schedule, these factors may need to be balanced against other considerations, such as the availability of funding, priorities in other programs, and the impact of the long-term use of bonds on debt service costs. With regards to funding availability, if the Committee makes a decision to reduce or eliminate the transportation tax and fee changes in the Governor's bill, it may be necessary to reduce or eliminate any above-base increases for transportation programs, including the major highway development program, or otherwise reallocate base resources between programs.

17. Another factor for consideration is the impact that the use of transportation revenue bonds for the major highway development program has on the level of transportation fund debt service. Debt service on transportation revenue bonds is paid from revenues generated by vehicle registration fees and other vehicle-related revenues. These are sometimes called "pledged" revenues, since the state pledges the collections to a third-party trustee for the payment of debt service. Any pledged revenues not needed to pay debt service are deposited in the transportation fund.

18. Although the bill would increase overall funding for the major highway development program by 1.5% annually, the increase is accomplished entirely with the use of revenue bonds. In addition to providing the increase with bonds, the bill would replace a portion of the SEG base for the program with bonds (\$14,535,800 in 2007-08 and \$11,650,500 in 2008-09). These changes were made with the intent of establishing the bond-financed percentage of the total funding for the program at close to 55.0%, although the actual percentage is slightly less than that, or 54.4% in 2007-08 and 54.6% in 2008-09. If a decision is made to reduce the use of bonds, the Committee could reduce the revenue bond authorization for the program. For instance, if the revenue bond appropriation for the program is maintained at the base level, the bond authorization could be reduced by \$39,679,500 (the amount of the above-base increase).

19. When the transportation revenue bond program was established in 1984, DOT regularly included a statement in the official bond disclosure documentation that specified that the Department's policy "is that revenue bonds will cover approximately 55% of major project costs and state and federal funds will cover the remaining 45%." Although such a statement is no longer included in the bond disclosure, the 55% standard became a benchmark for many funding decisions, even though the use of bonds frequently exceeded that amount in the late 1980s and early to mid 1990s. More recently, the bonding percentage has been closer to 55%, but this occurred not because the annual use of bonding was reduced, but because the total funding level was increased through disproportionate increases in the SEG and FED appropriations for the program. In the appropriation base for the program, bonds account for 49.1% of the total funding, which is the reason that the bill could replace SEG funds with bonds and still remain under the 55% bonding level.

20. In 1997, DOT contracted with First Albany Corporation to study the use of transportation bonds and make recommendations for future bonding policy. The consultant's report recommended against using the 55% bonding policy as a means for limiting the use of bonds. This was, in part, because at that time the level had frequently been exceeded, but also because it did not provide a meaningful gauge of the long-term credit worthiness of the bonds. That is, even if the 55% level was maintained over time, that level of bonding could eventually result in debt service payments requiring an increasing percentage of the revenues pledged for making those payments. Eventually, this could affect the attractiveness of the bonds to investors.

21. Since the First Albany study discouraged the use of the 55% bonding benchmark as a basis for making bonding decisions, the Committee may wish to consider different measures for determining the appropriate level of bonds. The following points provide information that may be used to evaluate debt level and bond issuance.

22. The case for using bonds for transportation projects, such as major highway development projects, rests on the fact that such improvements have high initial costs, but when complete, have a long life span. The use of bonds as a financing tool allows the cost of such a project to be spread out over a portion of its design life. In this way, future users of the project would pay for some of the project's cost. If no bonding is used, most or all of the cost would be borne in just a few years by current users, which may limit the number of such improvements that

can be done.

23. While the use of bonds may allow the acceleration of transportation improvements, a problem may be presented when the use of bonds exceeds the amount that future users are willing or able to support. This is particularly the case because the full, annualized debt service costs on the bonds authorized in one biennium are not typically paid until the following biennium, so the true cost of the bonding is not borne at the same time that the decision to use bonds is made. To illustrate this point, the bill would provide bonding of \$165,738,300 in 2007-08 and \$167,395,600 in 2008-09 for the major highway development program. When fully issued, debt service payments on these amounts could be expected to be about \$26.7 million per year for about 20 years. During the 2007-09 biennium, however, debt service on this amount is estimated at just \$2.0 million in 2007-08 and \$11.0 million in 2008-09. The use of revenue bonds has allowed many major highway development projects to be built earlier than would otherwise have been the case over the past 20 years, but, as a consequence, debt service payments on these bonds have grown at an average rate of nearly 9% per year over the past 10 years.

24. The relationship between the amount of revenues that are pledged for paying revenue bond debt service in a given year and the amount of debt service payments in that period is called the "coverage ratio." Under the guidelines for the issuance of bonds, 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, First Albany recommended maintaining a coverage ratio of at least 2.5 to maintain a cushion above the 2.25 minimum level. Although current coverage ratios have remained above 2.5, they have generally been declining. The following table shows revenue bond debt service, pledged revenues, and the coverage ratios since 1997-98, including projections for the 2007-09 biennium based on the proposed use of bonds and registration fee increases in the bill.

**Revenue Bond Coverage Ratios
(\$ in Millions)**

<u>Fiscal Year</u>	<u>Revenue Bond Debt Service</u>	<u>Pledged Revenue</u>	<u>Coverage Ratio</u>
1997-98	\$71.9	\$280.6	3.9
1998-99	80.9	294.5	3.6
1999-00	84.2	310.9	3.7
2000-01	89.1	313.9	3.5
2001-02	87.9	323.8	3.7
2002-03	101.1	320.3	3.2
2003-04	113.1	416.0	3.7
2004-05	122.0	422.0	3.5
2005-06	143.7	450.5	3.1
2006-07*	154.9	468.7	3.0
2007-08**	174.2	558.5	3.2
2008-09**	180.4	589.4	3.3

* Debt service and pledged revenue amounts for 2006-07 are estimates.

** Debt service and pledged revenue amounts for 2007-08 and 2008-09 are estimates based on provisions in the bill.

25. As the previous table shows, coverage ratios in the 2007-09 biennium would remain relatively stable above the 3.0 mark under the provisions of the bill. However, revenue bond debt service is projected to increase by 12.5% in 2007-08 and an additional 3.6% in 2008-09. The coverage ratios remain above 3.0 despite the increases in debt service because the bill would increase auto and light truck registration fees, thereby increasing pledged revenues. If the Committee were to eliminate those fee increases, but maintain the same level of bonding, the estimated coverage ratios would fall to 2.8 in 2007-08 and 2.7 in 2008-09. Since revenue bond debt service has typically been growing at a faster rate than the "natural" growth in pledged revenues, coverage ratios may fall below 2.5 in the next several years if no action is taken to increase pledged revenues by increasing the registration fees. In other words, the continued use of revenue bonds will generally require the enactment of periodic registration fee increases (or other actions to increase pledged revenues) in order to maintain favorable coverage ratios.

26. The First Albany report notes that maintaining a coverage ratio of at least 2.5 would likely be sufficient to maintain the creditworthiness of the revenue bond program. However, even if the state adopts a policy with respect to transportation revenue bonds in accordance with this coverage ratio recommendation, this would not necessarily mean that the overall transportation bonding policy is fiscally sustainable. This is largely due to the fact that the use of transportation fund-supported, general obligation bonds (as opposed to revenue bonds) has increased markedly in the last few years. Debt service on these general obligation bonds is paid from transportation fund appropriations, instead of from pledged revenues, and, therefore, is not included in the coverage ratio calculation. Consequently, coverage ratios neither measure the state's ability to ultimately pay these debt service costs, nor do they provide a check on the increased use of general obligation bonds.

27. To illustrate the recent increase in the use of general obligation bonds, the following table shows the amount of these bonds authorized, by program area, over the past five biennia, plus the amount that would be authorized under the bill. The use of general obligation bonds was relatively modest prior to the 2005-07 biennium (by contrast, the amount of revenue bonds authorized during this period generally ranged between \$200 million and \$300 million per biennium). In the 2005-07 biennium, however, this amount was increased substantially, primarily driven by authorizations for the Marquette Interchange reconstruction project. Under the bill, additional amounts would be provided for the I-94 North-South freeway reconstruction project, as well as increases for freight rail and harbor projects.

**Transportation Fund-Supported, General Obligation Bond Authorizations
(\$ in Millions)**

<u>Biennium</u>	<u>Freight Rail Projects</u>	<u>Harbor Projects</u>	<u>S.E. Wis. Freeway Projects</u>	<u>Total</u>
1997-99	\$4.5	\$3.0	\$0.0	\$7.5
1999-01	4.5	7.0	0.0	11.5
2001-03	4.5	3.0	0.0	7.5
2003-05	4.5	3.0	0.0	7.5
2005-07	12.0	12.7	213.1	237.8
2007-09*	22.0	12.7	90.2	124.9

*The 2007-09 amounts are the proposed bond authorizations in the bill.

28. Since the use of general obligation bonds increased significantly in the 2005-07 biennium, and may continue to be a source of funding for transportation, it may be useful to use a measure of debt burden that, unlike the coverage ratio, takes into consideration both revenue bond and general obligation bond debt service. The First Albany study recommended, as such a measure, using the percentage of gross transportation fund revenues that must be devoted to paying debt service on all transportation bonds. The following table shows total transportation debt service, gross revenues, and the debt service percentage since 1997-98, including estimates of these amounts under the bill.

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

<u>Fiscal Year</u>	<u>Total Debt Service</u>	<u>Gross Revenues</u>	<u>Debt Service as % of Revenues</u>
1997-98	\$78.7	\$1,141.7	6.9%
1998-99	87.4	1,235.1	7.1
1999-00	90.3	1,271.1	7.1
2000-01	94.5	1,283.4	7.4
2001-02	93.2	1,337.7	7.0
2002-03	105.9	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*	171.8	1,620.1	10.6
2007-08**	223.2	1,796.4	12.4
2008-09**	247.5	1,877.5	13.2

* Debt service and gross revenue amounts for 2006-07 are estimates.

** Debt service and gross revenue amounts for 2007-08 and 2008-09 are estimates based on provisions in the bill.

29. As the table shows, the share of transportation fund revenues needed to pay debt

service has increased over the past decade and would continue to increase under the bill, despite transportation fund tax and fee increases totaling \$196.6 million in 2007-08 and \$271.6 million in 2008-09. Without the tax and fee increases (but no changes to the proposed use of bonds in the bill), the debt service percentage would increase to 14.0% in 2007-08 and 15.4% in 2008-09.

30. In the 2003-05 biennium, a total of \$565.5 million in general obligation bonds were issued for highway programs to replace SEG funds in those programs so that the SEG funds could be used for general fund programs. The debt service on these bonds is currently paid from the general fund, since the bonds were ultimately issued to assist the general fund budget. However, during the 2003-05 biennium, the decision was made to temporarily pay the debt service on these bonds from the transportation fund, instead of the general fund, which affects the debt service percentages in the two years of that biennium. Without those debt service amounts (\$2.9 million in 2003-04 and \$41.0 million in 2004-05), the debt service percentages would have been 8.1% in 2003-04 and 8.4% in 2004-05 (instead of 8.3% and 11.2%, respectively). Under the bill, a portion of the debt service would again be paid from the transportation fund to reduce GPR debt service costs. If these transportation fund debt service supplements (\$26.6 million in 2007-08 and \$43.3 million in 2008-09) were eliminated, and no other changes were made, the debt service percentages under the bill would be an estimated 10.9% in each year.

31. The First Albany study noted that there is no "industry standard" indicating what is an appropriate debt service percentage or overall bonding policy. For instance, some may feel it is appropriate, in certain circumstances, to pursue a strategy of increasing the use of bonds to accelerate highway improvements, resulting in a gradual increase in the debt service percentage. Alternatively, others may feel it is prudent to stabilize or gradually reduce the percentage by reducing or holding constant the use of bonds. Each of these courses of action has implications that should be understood. If the use of bonds consistently increases at a faster rate than the growth in transportation fund revenues, then the debt service percentage will increase. This will, over time, reduce the amount of transportation fund revenues that are available for transportation programs, including the programs that are funded partially with bonds. Eventually, this course of action may create pressure to increase the taxes and fees that are used to generate transportation fund revenues. On the other hand, a decision to limit the authorization of new bonds may have longer-term benefits related to fiscal stability, but it would reduce the amount of funding available for all transportation programs in the short term.

32. Regardless of the policy that the Committee decides is appropriate, the First Albany study recommended that bonding decisions should be guided by a long-term planning process, covering a period of at least five to 10 years. Such a process would provide more complete information on the full cost of various bonding policy choices. However, First Albany's recommendation to establish such a process has not been adopted.

33. If the Committee wishes to establish a long-range planning process to guide the state's use of bonds, the bill could be amended to create such a requirement. The Department could be required to submit a 10-year plan every two years with its biennial budget request that includes an estimate of total transportation fund revenues, proposed bonding, and estimated debt service for

each year of the period. In addition, the Department could be required to show various scenarios with different levels of transportation spending, from bond or cash sources, and different levels of revenues. At least one scenario should result in achieving a stable debt service percentage by the end of the 10-year period. For any scenarios that result in an increasing debt service percentage, the plan should identify the potential consequences for specific transportation programs of reduced net revenues.

34. Although establishing a long-range bond finance planning process may assist in making decisions in the future, the Committee will have to make bonding decisions for the 2007-09 biennium without the benefit of such a plan. One factor that could be used to help make this decision is the total, annualized debt service on the proposed bonds in the bill. Under the bill, a total of \$470.0 million in transportation-fund supported bonds would be used in the biennium. When fully issued, the total annual debt service on this amount would be \$37.7 million. By comparison, if there were no transportation fund tax and fee increases, it is estimated that gross transportation fund revenues would grow by an average of \$17.8 million annually in the biennium. In other words, the level of bonding proposed in the bill would lead to increases in debt service that are over twice the amount of new revenues currently generated by the "natural" growth in transportation fund revenues.

35. In order to reduce debt service on new bonds to be more in line with the natural growth in transportation fund revenues, the proposed level of bonds would roughly have to be reduced by half. The resulting bonding level of \$235.0 million would be about the same level of total bonding that was provided by the 1997-99 biennial budget. A decision to reduce the level of bonding used for transportation projects would need to be made in the context of the overall level of funding for programs such as the major highway development program, and the amount of increases, if any, to transportation fund taxes and fees. The alternatives presented below for the funding level for the major highway development program are expressed in terms of increases to the SEG appropriation for the program. Other modifications could be made to the amount of bonds used for the program, such as by replacing bonds with SEG or FED funds.

36. One alternative to reduce the level of bonding in the bill would be to provide the same overall level of funding for the program, but provide the increase with SEG funds instead of bonds, maintaining the bonds at the base level. Relative to the bill, this would require increases of \$19,011,100 SEG in 2007-08 and \$20,668,400 SEG in 2008-09 and would result in corresponding decreases in the appropriation of revenue bonds (SEG-S). The Department indicates that a reduction in the use of bonds of this magnitude would not likely change the level of bond issuance in 2007-08, so would not have an impact on debt service payments in that year. In 2008-09, however, the bond issuance would be reduced, resulting in a reduction in debt service estimated at \$600,900 in that year. Eventually, this reduction in the use of bonds would reduce debt service payments by about \$3.2 million annually.

ALTERNATIVES TO BILL

A. Major Highway Development Program Funding Level

1. Approve the Governor's recommendation to provide total funding increases of \$4,475,300 in 2007-08 and \$9,017,900 in 2008-09 for the major highway development program, by increasing the use of transportation revenue bonds (SEG-S) and decreasing the use of SEG funds for the program, as follows: (a) an increase of \$19,011,100 SEG-S and a decrease of \$14,535,800 SEG in 2007-08; and (b) an increase of \$20,668,400 SEG-S and a decrease of \$11,650,500 SEG in 2008-09. This would provide annual increases of 1.5% for the program. Provide increased revenue bonding authority of \$383,963,100 for major highway development projects and administrative facilities. Decrease estimated transportation fund revenue by \$600,900 in 2008-09 to reflect an increase in transportation revenue bond debt service associated with the above-base increase in the use of bonds.

ALT A1	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
SEG	\$0	\$0	-\$600,900	-\$26,186,300
SEG-S	0	0	0	39,679,500
BR	0	0	383,963,100	0
Total	\$0	\$0	\$383,362,200	\$13,493,200

2. Modify the Governor's recommendation by providing additional increases of \$1,531,800 SEG in 2007-08 and \$4,046,500 SEG in 2008-09, to provide 2.0% annual increases for the program. This alternative provides the amount of funding recommended by the Governor in an errata submitted after the introduction of the bill.

ALT A2	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
SEG	\$0	\$5,578,300	-\$600,900	-\$20,608,000
SEG-S	0	0	0	39,679,500
BR	0	0	383,963,100	0
Total	\$0	\$5,578,300	\$383,362,200	\$19,071,500

3. Modify the Governor's recommendation by providing increases of \$76,461,900 SEG in 2007-08 and \$79,505,200 SEG in 2008-09 to provide the level of funding for the program recommended by the "Road to the Future Committee," which is intended to meet the highway improvement goals of the Department of Transportation's 2000 long-range highway plan.

ALT A3	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
SEG	\$0	\$155,967,100	-\$600,900	\$129,780,800
SEG-S	0	0	0	39,679,500
BR	0	0	383,963,100	0
Total	\$0	\$155,967,100	\$383,362,200	\$169,460,300

4. Modify the Governor's recommendation by providing increases of \$43,373,000 SEG in 2007-08 and \$46,754,500 SEG in 2008-09, which would provide the annual level of funding recommended for the program by the Department of Transportation's 2000 long-range highway plan, but which would not provide additional amounts to compensate for earlier years, when the actual funding fell below the plan's recommendations.

ALT A4	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
SEG	\$0	\$90,127,500	-\$600,900	\$63,941,200
SEG-S	0	0	0	39,679,500
BR	0	0	383,963,100	0
Total	\$0	\$90,127,500	\$383,362,200	\$103,620,700

5. Modify the Governor's recommendation by providing increases of \$19,011,100 SEG in 2007-08 and \$20,668,400 SEG in 2008-09 and by providing corresponding decreases in the appropriation of revenue bonds (SEG-S), to provide the same overall level of funding, but without increasing the use of bonds above the 2006-07 base. Increase estimated transportation fund revenues by \$600,900 in 2008-09 to reflect a reduction in debt service payments in that year. Reduce the bonding authorization under the bill by \$39,679,500 to reflect a reduction in the use of bonds under this alternative.

ALT A5	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
SEG	\$600,900	\$39,679,500	\$0	\$13,493,200
SEG-S		-\$39,679,500	0	0
BR	-\$39,679,500	0	344,283,600	0
Total	-\$39,078,600	\$0	\$344,283,600	\$13,493,200

6. Delete provision. Reduce the bonding authorization under the bill by \$39,679,500 to reflect a reduction in the use of bonds under this alternative [leaving \$344,283,600 in bond authorization to provide sufficient authorization to support the base level of bonding]. Increase estimated transportation fund revenue by \$600,900 in 2008-09 to reflect a reduction in transportation revenue bond debt service payments.

ALT A6	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
SEG	\$600,900	\$26,186,300	\$0	\$0
SEG-S		-\$39,679,500	0	0
BR	-\$39,679,500	0	344,283,600	0
Total	-\$39,078,600	-\$13,493,200	\$344,283,600	\$0

B. Bonding Policy

1. Require the Department of Transportation to submit a 10-year plan every two years with its biennial budget request that includes an estimate of total transportation fund revenues, proposed bonding, and estimated debt service for each year of the period. Require the Department to show various scenarios in the plan with different levels of transportation spending, from bond or cash sources, and different levels of revenues. Specify that at least one scenario should result in achieving a stable debt service percentage by the end of the 10-year period. Specify that for any scenarios that result in an increasing debt service percentage, the plan should identify the potential consequences for specific transportation programs of reduced net revenues.

2. Maintain current law.

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Attachment

ATTACHMENT

Schedule of Currently Enumerated Major Highway Development Projects

<u>Highway</u>	<u>Segment</u>	<u>Enumeration Year</u>	<u>Estimated Remaining Cost</u>	<u>Final Contract Year*</u>
USH 10	Marshfield - Stevens Point	1989	\$205.8	2012
STH 81/STH 213	Beloit Bypass	1993	7.7	2018 **
USH 151	Fond du Lac Bypass	1993	7.8	2009 ***
STH 16	Oconomowoc Bypass	1995	6.7	2010 ***
USH 53	Eau Claire Bypass	1995	49.7	2009/2012 ***
STH 11	Burlington Bypass	1997	106.6	2010
STH 57	Dyckesville - Sturgeon Bay	1997	49.3	2009
USH 12	Lake Delton - Sauk City	1997	156.4	2010/2016
USH 53	La Crosse Corridor	1997	114.5	2018
STH 23	STH 67 - USH 41	1999	104.4	2015
USH 41	Oconto - Peshigo	1999	160.0	2009
I-39/USH 51	Wausau Corridor	2001	102.4	2010
STH 26	Janesville - Watertown	2001	326.9	2014
USH 14	Viroqua - Westby	2003	50.3	2012/2016
USH 18	Prairie du Chien - STH 60	2003	23.1	2011/2014
USH 41	STH 26 - Breezewood Lane	2003	334.5	2014
USH 41	De Pere - Suamico	2003	437.1	2014

*The "final contract year" represents the year in which the final substantial project letting will occur. This should be viewed as a budgeting schedule rather than a construction schedule, since construction on some projects will be completed in the year following the letting. Project lettings of less than \$2.0 million at the end of a particular project schedule were excluded since these contracts typically represent auxiliary work occurring after the mainline of the project is open to traffic. Work on some projects is scheduled in two phases, with at least a one-year break between the completion of one phase and the start of the next. In these cases, both final contract years are shown.

**The Beloit bypass is a joint project between Wisconsin and the State of Illinois, although the largest part of the project lies in Illinois. The final contract year is somewhat speculative, since the schedule will be largely determined by decisions made by the Illinois Department of Transportation.

***Several projects in this list are complete and open to traffic, or largely complete, at this time, but planned work remains on the local road system.