



Legislative Fiscal Bureau

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

May 19, 2009

Joint Committee on Finance

Paper #751

Federal Highway Formula Aid (DOT -- Transportation Finance)

[LFB 2009-11 Budget Summary: Page 598, #3]

CURRENT LAW

The federal government provides highway aid to the states in the form of authorization to obligate funds from the federal highway trust fund. The authorization, which is distributed to the states by formula, is typically approved on a multi-year basis, but Congress annually limits how much of that authorization can be obligated. The limit that is placed on obligation authority determines the spendable amount of federal highway formula aid. The current multi-year authorization act is the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users, also known as SAFETEA-LU, was passed in 2005, and expires on September 30, 2009.

The state budgets for federal highway formula aid by estimating the total amount of obligation authority the state will receive during the two federal fiscal years that correspond to the two state fiscal years of the biennium. This funding is apportioned among various FED appropriations for the Department of Transportation (DOT). The amounts in the Chapter 20 appropriations schedule reflect the intent of the Legislature on how these funds should be spent, but DOT may spend more or less than the amount estimated. If the difference between the amount estimated and the amount received exceeds 5%, then DOT must submit a plan to the Joint Committee on Finance for adjusting the Department's appropriations to reflect the revised federal amount. The Committee may approve, or modify and approve, the Department's plan to reallocate federal funds.

GOVERNOR

Reestimate federal highway formula aid at \$651,479,600 in 2009-10 and \$651,433,100 in 2010-11, a reduction of \$217,500 in 2009-10 and \$264,000 in 2010-11 from the federal highway

portion of the 2008-09 appropriation base for federal aid appropriations.

DISCUSSION POINTS

1. The following table shows the allocation of federal highway formula aid among the Department's appropriations in the bill, as affected by the Committee's earlier actions. The bill, as adjusted, has above-base increases for standard budget adjustments for the administration and planning and departmental management and operations appropriations. The other changes reflect reallocations between programs, which would be offset by SEG adjustments in the same programs. The effect of these federal funds shifts are shown in the table, but the SEG shifts are not. In earlier action, the Committee deleted a proposed federal funding increase for rail passenger service and replaced a portion of the increase with SEG funds. As a result, there is an estimated \$1,431,400 in 2009-10 and \$8,045,300 in 2010-11 that is unallocated, which is shown at the bottom of the table.

	Appropriation Base	AB 75*		AB 75 Totals*	
		Change to Base			
		2009-10	2010-11	2009-10	2010-11
Local Transportation Facility Improvement	\$72,291,300	\$0	\$0	\$72,291,300	\$72,291,300
Local Bridge Improvement	24,439,200	0	0	24,439,200	24,439,200
Rail Passenger Service	5,218,200	0	0	5,218,200	5,218,200
Railroad Crossing Improvements	3,299,600	0	0	3,299,600	3,299,600
Congestion Mitigation/ Air Quality Improvement	11,619,000	0	0	11,619,000	11,619,000
Transportation Enhancements Grants	6,251,600	0	0	6,251,600	6,251,600
Bicycle and Pedestrian Facilities	2,720,000	0	0	2,720,000	2,720,000
Safe Routes to School	3,230,100	0	0	3,230,100	3,230,100
Major Highway Development	78,975,000	0	0	78,975,000	78,975,000
State Highway Rehabilitation	345,747,300	-31,995,400	-38,655,800	313,751,900	307,091,500
Southeast WI Freeway Rehabilitation	80,091,600	30,000,000	30,000,000	110,091,600	110,091,600
Departmental Mgmt. and Operations	13,027,600	311,900	311,900	13,339,500	13,339,500
Administration and Planning	3,683,700	34,600	34,600	3,718,300	3,718,300
Highway Maint. and Traffic Operations	1,102,900	0	0	1,102,900	1,102,900
Unallocated Amounts	--	<u>1,431,400</u>	<u>8,045,300</u>	<u>1,431,400</u>	<u>8,045,300</u>
Total	\$651,697,100	-\$217,500	-\$264,000	\$651,479,600	\$651,433,100

* Governor's recommendations, as adjusted by the Committee's earlier action.

2. The total amounts shown in the previous table reflect estimates for federal highway formula aid that remain essentially at the base level in both years of the biennium. These estimates, which were prepared by the Department of Transportation, reflect an assessment that federal highway trust fund revenues remain uncertain, but will not likely grow over the next two federal fiscal years, making aid increases also unlikely.

3. The 2007-09 biennial budget estimated federal fiscal year 2009 formula aid at \$648.5 million. With the recent passage of the federal fiscal year 2009 omnibus appropriation act, the Federal Highway Administration notified states of the final federal highway aid amounts for the

year. Wisconsin will receive \$712.9 million in 2009, which is above the budget estimates by \$64.4 million, or 9.9%.

4. Although the amount of 2009 aid received by the state was above the budget estimates, it is unclear whether the same level of federal funding for highways will continue in 2010 and beyond. The 2005 surface transportation authorization act (SAFETEA-LU) provided a level of funding that exceeded annual revenues, which was initially sustainable because the federal highway trust fund had large positive balances at the beginning of the period. By federal fiscal year 2008, those balances had been depleted, and the trust fund would have had a deficit in 2009 had Congress not transferred \$8.0 billion from federal general revenues in 2008.

5. Since SAFETEA-LU expires at the end of federal fiscal year 2009, a new federal surface transportation policy act will have to be passed to continue federal highway aid authorizations. If that act continues the policy established in 2008 of supplementing the federal highway trust fund with general revenues, or if Congress acts to increase federal fuel taxes or other trust fund revenues, then the state could receive highway aid in line with the amount received in 2009, which would be an increase over the amounts reflected in AB 75. If, however, federal highway spending is aligned with current federal highway trust fund revenues, the state could receive less aid. Since these decisions have yet to be made, it is difficult to project the state's aid for 2010 and beyond.

6. If estimates of federal highway aid contained in the budget bill are too high or too low, DOT would adjust encumbrances accordingly and would choose which appropriations to modify. Typically, these decisions are based on where the adjustments can be made without jeopardizing the state's ability to completely use the state's aid before the end of the federal fiscal year. However, if the difference between the amount that the state receives and the budgetary estimates is greater than 5%, DOT is required to submit a plan to the Committee for making adjustments.

SUMMARY

Since the state's federal highway aid for 2010 and beyond will be determined by future actions of Congress, the amount of federal highway aid that the state can expect to receive in the two years of the biennium remains uncertain. Given this uncertainty, and the fact that a case could be made that the state's aid could be higher or lower than the amounts in the bill, the Committee could accept the Governor's recommendation to maintain federal aid at essentially the base level. The Committee will be able to make adjustments to the allocation of federal aid in the future if the amount actually received differs by more than 5% from these estimates.

As a result of the Committee's earlier action, there is an estimated \$1,431,400 in 2009-10 and \$8,045,300 in 2010-11 in federal highway aid that is unallocated, amounts that could be provided to DOT's FED appropriations as the Committee completes its action on transportation programs.

Prepared by: Jon Dyck