



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #643

### Federal Highway Formula Aid (DOT -- Transportation Finance)

[LFB 2011-13 Budget Summary: Page 428, #3]

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#### 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 place on obligation authority determines the spendable amount of federal highway formula aid. The most recent multi-year authorization, known as the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU), expired on September 30, 2009, but has been extended on several occasions since that time. The current extension continues the provisions of the act through the end of federal fiscal year 2011 (September 30, 2011).

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). 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 \$715,340,300 in 2011-12 and \$721,395,300 in 2012-13, which represents an above-base increase of \$66,212,800 in 2011-12 and \$72,267,800 in 2012-13.

## DISCUSSION POINTS

1. The following table shows the proposed changes to the appropriation base under the bill and the resulting distribution of federal highway formula aid. Although the bill, as introduced, estimated federal highway aid at \$715.3 million in 2011-12 and \$721.4 million in 2012-13, the amounts shown in the table have been adjusted to reflect the Committee's decision, made at an executive session on May 3, to reduce FED funds for the state's share of the cost of Amtrak's Hiawatha service (and substitute an equal amount in the SEG appropriation for passenger rail service, which is not shown). Consequently, the totals are less than the Governor's federal aid estimate by \$2.0 million in 2011-12 and \$3.1 million in 2012-13. Unless the Committee changes the overall estimate of formula aid, these amounts can be reallocated to other DOT appropriations in subsequent decisions.

	Appropriation Base	SB 27/AB 40*		SB 27/AB 40*	
		Change to Base		Totals	
		2011-12	2012-13	2011-12	2012-13
Local Transportation Facility Improvement	\$72,272,900	-\$34,900	-\$34,900	\$72,238,000	\$72,238,000
Local Bridge Improvement	24,431,100	-21,500	-21,500	24,409,600	24,409,600
Rail Passenger Service	5,218,200	-918,200	-729,500	4,300,000	4,488,700
Railroad Crossing Improvements	3,297,100	-5,300	-5,300	3,291,800	3,291,800
Congestion Mitigation/ Air Quality Improvement	11,619,000	0	0	11,619,000	11,619,000
Trans. 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
State Highway Rehabilitation	313,554,500	80,766,300	85,616,400	394,320,800	399,170,900
Southeast WI Freeway Rehab.	109,732,200	-109,732,200	-109,732,200	0	0
Major Highway Development	78,693,100	-429,600	-429,600	78,263,500	78,263,500
Southwest WI Freeway Megaprojects	0	95,053,100	95,053,100	95,053,100	95,053,100
Departmental Mgmt. and Ops.	13,339,600	-485,100	-530,200	12,854,500	12,809,400
Administration and Planning	3,665,200	20,200	20,200	3,685,400	3,685,400
Highway Maint. And Traffic Ops.	<u>1,102,900</u>	<u>0</u>	<u>0</u>	<u>1,102,900</u>	<u>1,102,900</u>
Total	\$649,127,500	\$64,212,800	\$69,206,500	\$713,340,300	\$718,334,000

\* Amounts shown reflect adjustments made under the Committee's earlier action.

2. Although the previous table illustrates how federal highway aid is allocated among DOT appropriations, the primary focus of this paper is the overall estimate of aid. As shown in the table, the appropriation base for DOT's FED appropriations (highway aid only) is \$649.1 million, an amount that reflects federal aid estimates included in the 2009-11 budget for federal fiscal year 2011. However, actual federal fiscal year 2011 highway aid is expected to be approximately \$716 million, or about 10% higher than those estimates (since the increase is more than 5%, DOT must submit a plan to the Committee with the Department's proposed use of the additional funds). Consequently, although the estimates reflected in the bill would be an increase over the appropriation base, in both years the amounts are similar to the amount that the state will receive in 2011.

3. There has been considerable uncertainty with respect to the federal highway aid program for the past several years. The multi-year authorization act for surface transportation (SAFETEA-LU) expired at the end of federal fiscal year 2009. Since that time, aid has been distributed to states under a series of seven short-term extension acts, the latest of which expires at the end of federal fiscal year 2011 (September 30, 2011). Consequently, the aid that the state will receive in federal fiscal years 2012 and 2013 (which corresponds to the two state fiscal years of the 2011-13 biennium), will either be distributed under additional short-term extensions, under a new multi-year authorization act, or under some combination. Until Congress acts on reauthorization, there is very little information on either the overall size of the federal highway aid program or the formulas that will be used to distribute aid, both of which are needed to estimate the state's aid for those two years.

4. Some federal budget proposals have been offered that could provide a sense of the overall level of federal transportation spending, but because of the large differences between various plans, and the general lack of detail on specifics for individual programs, the future aid levels for the state remain unclear.

5. Current estimates of the revenues and expenditures of the highway account of the federal highway trust fund (the funding source for state aid payments) project that the account will be unable to meet obligations (meaning it will have a negative balance) sometime in 2012. To avoid a deficit in previous years, Congress transferred a total of \$35 billion in federal general fund revenues into the highway trust fund. Additional transfers, revenue increases, spending reductions, or some combination of these measures will be necessary in the near future if the highway account is to remain solvent.

6. In April, the House of Representatives passed a budget resolution that establishes the general budget limits for subsequent 2012 appropriations acts, as well as the longer-term outline of spending levels. Under the resolution, no additional transfers would be made from the general fund to the highway trust fund. Therefore, funding for transportation would be reduced to maintain spending within existing revenues. Accordingly, total federal funding for highway aid would be reduced by about 28% in 2012 and 2013 (relative to 2011), and would generally stay at that level in subsequent years. If a proportional reduction were made to Wisconsin's federal formula highway aid, the state would receive about \$515 million annually in 2012 and 2013, a reduction, relative to the estimates in the bill, of about \$200 million in 2012 and \$206 million in 2013. It should be noted, however, that the reductions in the budget resolution are for broad program areas. In this case, the budget limits include, in addition to highways, funding for transportation safety and transit programs. Consequently, the reductions to highway aid would not necessarily be proportional to current spending, if, for instance, other transportation programs receive a greater or lesser share of the total cut.

7. The House budget resolution differs considerably from proposals included in the President's budget submission. Under the President's budget proposal, highway spending would increase over current levels over the next several years, particularly in 2012. In that year, federal highway aid to states would be supplemented with a one-time \$25 billion allocation, resulting in a 65% increase above 2011 aid levels. In 2013, that one-time infrastructure supplement would not be continued, but overall highway funding would still be 11% above 2011 levels. Applying these

percentages to Wisconsin's current aid, the state would receive about \$1,180 million in 2012 and \$795 million in 2013, which would be increases, relative to the bill, of \$465 million in 2011-12 and \$74 million in 2012-13.

8. In addition to the overall level of funding for highway aid, the state's aid could be affected by changes in the formulas used to allocate aid among the states. Under SAFETEA-LU, the state received a relatively favorable distribution of aid, relative to previous transportation authorization acts. If the aid formulas are revised under a new, multi-year act, it is possible that the state will not fare as well, relative to other states.

9. The U.S. Senate is currently working on a budget resolution, but has not yet presented or passed a proposal at this time.

10. Given the considerable differences between budget proposals passed by the U.S. House of Representatives and submitted by the President, it is unlikely that the Committee will have final detail on the amount of federal highway aid that the state will receive in the next two years before the passage of the state budget. Either considerable decreases or increases in aid are possible. Given this uncertainty, the Committee could accept the Governor's aid estimates, which would maintain appropriations at a level roughly equal to the amount of aid the state will receive in federal fiscal year 2011.

11. 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.

12. During the 2001 legislative session, the Legislature included a provision in a budget adjustment bill, 2001 Act 109, that authorized \$140,000,000 in transportation fund-supported, general obligation bonds for highway improvement projects, but specified that the bonds could only be used to make up for a reduction in federal highway aid, relative to budget estimates. Under that provision, a request to use the bonds would have been included in a plan submitted to the Joint Committee on Finance to adjust DOT's appropriations to account for a reduction in aid exceeding 5%. This provision was passed in response to a concern that 2003 federal highway aid could fall well below estimates that were included in the 2001-03 budget. However, this did not occur. Federal highway aid was in line with the original estimates, and the bond authorization was subsequently rescinded. If there is a concern that federal highway aid could fall significantly below the estimates included in SB 27/AB 40, one alternative would be to include a provision similar to the one included in 2001 Act 109. Although any amount of bonds could be provided, an authorization of \$200 million would equal the potential reduction of aid in 2012 under the House budget resolution. If the actual reduction in aid in 2012 is less than \$200 million, the bonding authorization could be used to replace any aid reduction in 2013. This bonding automation could be made temporary by specifying that the overall authorization would be reduced by any portion not approved for issue by the Committee prior to the end of the 2011-13 biennium. [Alternative #3]

## ALTERNATIVES

1. Approve the Governor's recommendation to estimate total federal highway aid at \$715,340,300 in 2011-12 and \$721,395,300 in 2012-13.

2. Reduce estimated federal highway aid by \$2,000,000 in 2011-12 and \$3,061,300 in 2012-13 to lower the overall estimate to \$713,340,300 in 2011-12 and \$718,334,000 in 2012-13. [Under this alternative, the federal aid reduction for the Hiawatha passenger rail service would not be reallocated to other programs, but would instead lower the overall amount of federal highway aid appropriated in the budget.]

<b>ALT 2</b>	<b>Change to Bill Revenue</b>
FED	- \$5,061,300

3. Modify the Governor's recommendation by authorizing \$200,000,000 in transportation fund-supported, general obligation bonds for highway improvement programs to compensate for reductions in federal highway aid received by the state in federal fiscal years 2012 or 2013. Prohibit DOT from using the proceeds of these bonds unless: (a) the state receives less than 95% of the amount of federal highway aid reflected in the Department's FED appropriations for the corresponding year; and (b) the Department has submitted a plan to the Joint Committee on Finance for the use of the bond proceeds and the Committee has approved, or modified and approved, the plan. Specify that any portion of this bonding not approved for use by the Committee by June 30, 2013, would be rescinded as of that date.

<b>ALT 3</b>	<b>Change to Bill Funding</b>
BR	\$200,000,000

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