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Transportation Bond Summary and Use of Revenues from Other Funds to Support Transportation Programs (DOT -- Transportation Finance)

[LFB 2013-15 Budget Summary: Page 451, #4 & Page 453, #7]

CURRENT LAW

The state issues both revenue bonds and general obligation bonds for transportation projects. Transportation revenue bonds are provided primarily for the major highway development program, but also for administrative facility capital projects. Debt service on revenue bonds is paid from revenues collected on vehicle registration and other vehicle-related fees. General obligation bonds have been issued primarily for southeast Wisconsin freeway rehabilitation projects, but also for certain other highway and bridge projects and freight rail and harbor improvement projects. Debt service on these bonds is paid from sum sufficient appropriations. Generally, the debt service on these bonds has been paid from the transportation fund, although the general fund is the source of debt service payments on some bonds.

The state transportation fund is the largest source of funding for transportation programs, with projected gross revenues of $1.9 billion in 2012-13. Transportation user fees are the primary sources of transportation fund revenues, including the motor fuel tax, vehicle registration and titling fees, driver's license fees, and aeronautical and railroad taxes. In addition to these user fees, the transportation fund currently receives some transfers from other funds. Beginning in 2012-13 and annually thereafter, the fund receives 0.25% of general fund taxes ($35.1 million in 2012-13), and since 2004-05, the fund receives a transfer from the petroleum inspection fund ($6,258,500 in 2012-13). In addition, the transportation fund received one-time (non-recurring) transfers of $102,500,000 from the general fund and $19,500,000 from the petroleum inspection fund in 2012-13.

GOVERNOR

The following table summarizes the biennial bond authorization for transportation projects in the bill, by type of bond and program or project.

Transportation Fund-Supported, General Obligation Bonds	
Hoan Bridge/Lake Interchange Project	$200,000,000
Zoo Interchange Project	102,000,000
I-94 North-South Freeway	5,000,000
Freight Rail Preservation	60,000,000
Harbor Assistance	10,700,000
Subtotal	$377,700,000
Transportation Revenue Bonds	
Major Highway Development	$404,632,000
Administrative Facilities	11,880,000
Subtotal	$416,512,000
General Fund-Supported, General Obligation Bonds	
Zoo Interchange Project	$200,000,000
TOTAL	$994,212,000

The following table shows the current law and proposed increases in the use of resources from the general fund and petroleum inspection fund for transportation programs.

	2013-14	2014-15	Biennial Total
Current Law			
General Fund			
0.25% Transfer of General Fund Taxes	$35,127,000	$36,302,500	$71,429,500
Petroleum Inspection Fund			
Ongoing Appropriation Transfer	6,258,500	6,258,500	12,517,000
Subtotal, Current Law Transfers	$41,385,500	$42,561,000	$83,946,500
Bill Changes			
General Fund			
Zoo Interchange Bonding	$0	$200,000,000	$200,000,000
One-Time Revenue Transfer	23,000,000	0	23,000,000
Mass Transit Aid Funding	0	106,478,300	106,478,300
Petroleum Inspection Fund			
One-Time Revenue Transfer	16,000,000	16,000,000	32,000,000
Subtotal, Bill Changes	$39,000,000	$322,478,300	$361,478,300
Total			
General Fund	$58,127,000	$342,780,800	$400,907,800
Petroleum Inspection Fund	22,258,500	22,258,500	44,517,000
Both Funds	$80,385,500	$365,039,300	$445,424,800

DISCUSSION POINTS

1. This paper provides a discussion of several transportation finance issues, including the proposed use of transportation bonds and resources from funds other than the transportation fund under the Governor's 2013-15 biennial budget. Specifically, the bill's proposed approach to financing transportation programs is discussed in light of the findings and recommendations of the Wisconsin Transportation Finance and Policy Commission. The purpose of this discussion is to provide a general overview of these issues. Other issue papers have been or will be presented for specific program areas to help the Committee make decisions on those programs.

Bonding and Transportation Revenue Trends

2. As shown in the table above, the Governor's bill would authorize $994.2 million in bonds, of which $794.2 million would be transportation fund-supported bonds. This is greater than the amount of transportation fund-supported bonds provided in the 2011-13 biennium, but somewhat less than the amount provided in the 2009-11 biennium. The following table shows the biennial transportation bond authorizations, by program, over the past five biennia, and the proposed level of bonding in the Governor's bill. [Since the focus of this section is on transportation fund debt service, general fund-supported bonds issued during these biennia are excluded from this table.] Transportation revenue bonds, shown in the first column, are issued primarily for the major highway development program, although approximately $5.9 million annually is spent on DOT administrative facility construction projects.

Transportation Fund-Supported Bond Authorization ($ in Millions)

	Transportation Revenue Bonds	SE Wisconsin Freeway Projects	Other State Highway Projects	Freight Rail and Harbor Projects	Stillwater Bridge	Total
2003-05	$342.5	$0.0	$0.0	$7.5	$0.0	$350.0
2005-07	228.8	213.1	0.0	24.7	0.0	466.6
2007-09	384.0	90.2	0.0	34.7	0.0	508.9
2009-11	301.4	250.3	110.0	72.7	225.0	959.4
2011-13	341.8	151.2	131.0	40.7	0.0	664.7
2013-15	416.5	307.0*	0.0	70.7	0.0	794.2

* Includes $107.0 million for southeast Wisconsin freeway megaprojects and a $200.0 million authorization for the Hoan Bridge/Lake Interchange project, but excludes a $200.0 million general fund-supported bond authorization for the Zoo Interchange project.

3. As the preceding table shows, the amount of bonds issued for transportation projects has increased over the period shown, particularly corresponding to the period when the state began the large reconstruction projects on the Milwaukee-area freeway system, and other large projects, like the Stillwater Bridge project.

4. As the use of bonds has increased, so has annual debt service. The following table shows annual debt service payments, total transportation fund revenues, and the percentage of total

transportation fund revenues required to make debt service payments over the past 10 years, plus projections for 2012-13 and for the 2013-15 biennium under provisions of the bill. It should be noted that the transportation fund revenues include transfers of revenues from other funds. Without the current law and proposed transfers in the 2013-15 biennium (totaling $80.4 million in 2013-14 and $58.6 million in 2014-15), the percentage of revenues needed for debt service would be 17.4% in 2013-14 and 19.1% in 2014-15.

Debt Service as a Percentage of Gross Transportation Fund Revenues
($ 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
2012-13*	260.0	1,885.0	13.8
2013-14*	302.9	1,819.8	16.6
2014-15*	333.6	1,806.0	18.5

*Projections based on current law and proposed bonding provisions of the bill.

5. Although the increase in the use of bonds is related to the start of the southeast Wisconsin freeway and other large reconstruction projects, other general trends in transportation finance may have also played a role. Due to slow growth (or decline) of motor fuel consumption and the number of vehicles registered, revenues available for transportation have not been sufficient to maintain the purchasing power for many transportation programs or respond to increased funding demands. To compound this problem, debt service has consumed an increasing share of revenue growth. To illustrate these trends, the following table shows gross transportation fund revenues and revenues net of debt service, and the annual rate of change for both, over the past 10 years. In order to isolate the role that trends in traditional transportation fund tax and fee collections have had on overall transportation finance, the amounts shown exclude revenues that have been transferred from other funds to the transportation fund.

Gross Transportation Fund Revenue and Revenues Net of Debt Service, Excluding Transfers from Other Funds ($ in Millions)

Fiscal Year	Gross Revenues*	Percent Change	Net Revenues*	Percent Change
2002-03	$1,386.6		$1,280.8	
2003-04	1,440.4	3.9%	1,320.7	3.1%
2004-05	1,476.6	2.5	1,310.4	-0.8
2005-06	1,517.0	2.7	1,368.8	4.5
2006-07	1,606.5	5.9	1,441.2	5.3
2007-08	1,675.0	4.3	1,487.5	3.2
2008-09	1,687.3	0.7	1,496.3	0.6
2009-10	1,697.9	0.6	1,513.1	1.1
2010-11	1,715.9	1.1	1,518.7	0.4
2011-12	1,743.9	1.6	1,503.2	-1.0
2012-13**	1,721.6	-1.3	1,461.6	-2.8
2013-14**	1,739.5	1.0	1,436.6	-1.7
2014-15**	1,747.4	0.5	1,413.8	-1.6

* Excludes transfers from other funds.
** Projections.

6. As the previous table shows, both gross transportation fund revenues (exclusive of transfers from other funds) and revenues net of debt service have generally grown slowly or declined over the past several years, patterns that are projected to continue during the 2013-15 biennium. Note that the revenue growth seen in 2003-04 and 2007-08 can be partially attributed to increases to vehicle registration fees in those years. In addition, a portion of the revenue growth prior to 2006-07 is attributable to the indexing of the motor fuel tax rate. Under the bill, revenues net of debt service in 2014-15 would be lower than in 2006-07, meaning that debt service would reach a level where, on an annual basis, it is consuming all the growth in gross revenues that has occurred since that year.

7. On several occasions during the mid-2000s, transportation fund revenues were either transferred or lapsed to the general fund or were used for general fund programs as a means of balancing the general fund budget. Although these transfers were partially replaced with general fund-supported bonds, for several years there was still a net loss of transportation fund revenue available for transportation programs. This loss of transportation revenues for Department of Transportation programs may have resulted in an increase in the use of bonding. It is not possible, however, to determine if, or by how much, these transfers resulted in increased bonding, since the revenue loss may have also resulted in lower transportation spending or higher fee increases than would have otherwise been the case. Furthermore, the years with the highest bond use have not had net transfers out of the transportation fund. That is, in each year since 2007-08, there have either been no transfers to the general fund or else they were exceeded by the amount of general fund-supported bonds provided for transportation projects, yet transportation fund-supported bond use in these years exceeded the amounts authorized in previous years. Additional discussion of interfund transfers is provided in a separate section below.

8. In testimony on the bill, the Department Secretary argued that the use of bonds is justified to maintain the schedule of important highway projects, such as the Zoo Interchange and Hoan Bridge rehabilitation projects, and that current interest rates are very favorable for the issuance of bonds. The Secretary noted also that the use of bonds allows the cost of building or reconstructing long-lasting transportation assets to be spread out over the life of the facility, meaning that both current and future users will pay for the improvement. Finally, the Secretary noted that the Governor felt that in the current economic environment, with continued high unemployment, the use of debt financing is preferable to either raising transportation taxes and fees or cutting expenditures on transportation projects.

9. As noted by the Secretary, one of the advantages of the use of bonds is that infrastructure improvements can be completed earlier than would otherwise be possible. Then, the combination of future economic growth and inflation lower the real cost to the economy for the bond repayment. That is, although interest adds to the nominal cost of the project, the interest costs, in relation to the size of a growing economy, are lessened. At a time when bond interest rates are low, the use of bonds can be particularly advantageous since the amount of future costs is, in effect, lessened and more likely to be offset by growth and inflation. There are, however, two points to make regarding this dynamic. First, most of the future debt service cost is principal, not interest. Those costs may have eventually been borne if projects were to be cash financed in the future, but it is still possible to incur more future principal commitments than can be repaid without causing a drain on revenues. Second, although economic growth and inflation may make future costs, in effect, lower, the current transportation fund only partially captures that growth in the form of new revenues. Since transportation fund revenues are generated primarily on the motor fuel tax (an excise tax, not indexed to inflation), and flat registration fees, the fund revenues do not grow with inflation. Likewise, increasing fuel efficiency means that at least a portion of the impact of economic growth is not seen in growing revenues.

10. The fact that debt service payments have consistently been growing faster than transportation fund revenues may suggest that current transportation fund revenues are not sufficient to continue the current level of bonding. In part because of concerns over the level of transportation bonding and the associated debt service, the Legislature established the Wisconsin Transportation Finance and Policy Commission in the 2011-13 biennial budget.

11. The Transportation Finance and Policy Commission conducted its review of transportation programs and finance over the course of 15 months, issuing its final report and recommendations in January, 2013. As directed by the Legislature, the Commission developed a 10-year expenditure and revenue scenario for transportation programs. The following points describe some of the Commission's general findings and recommendations on transportation finance issues:

- The Commission found that the revenues generated by current transportation taxes and fees are not sufficient to address the level of transportation expenditures recommended by the Commission. Over the 10-year period, the Commission estimated that gross transportation fund revenues, without any changes to tax and fee rates, will grow at an average, annual rate of just 0.2%. In particular, revenues from motor fuel taxes on gasoline are expected to see little growth, due to increasing fuel efficiency for passenger vehicles and relatively little change in the number of vehicle-miles driven for personal transportation.

• Under the Commission's 10-year financing projections, the percentage of transportation fund revenues needed for debt service would increase to 25% by the end of the period if the state were to authorize an average of $577 million in transportation fund-supported bonds per biennium, which is 13% below the amount authorized in the 2011-13 biennium.

• The Commission recommended funding increases totaling $479.5 million annually (in 2012 dollars), relative to the 2012-13 base for all transportation programs. Of that amount, $387.1 million would be for the state highway improvement programs, $86.3 million would be for local programs (road, transit, and bicycle and pedestrian programs), and $6.1 million would be for freight rail, harbor, and airport programs.

• To provide the funding necessary to meet these funding goals (and to replace revenues from one-time sources in the 2012-13 revenue base), the Commission recommended a series of transportation tax and fee increases to generate an average of $639.1 million in new, annual revenues. Among these recommendations were: (a) a five-cent per gallon increase in the motor fuel tax; (b) the creation of a 1.02 cent per mile mileage fee (with certain exemptions and limits) for passenger vehicles; (c) a 73% increase to the heavy truck registration fee; (d) the removal of the current law exemption from the sales tax on the trade-in value of motor vehicles and the deposit of the associated revenues in the transportation fund; and (e) increasing the driver's license fee by $20.

12. As noted above, under the Commission's revenue and debt service projections, the percentage of transportation fund revenues devoted to debt service would continue to increase even if the biennial, average use of transportation-fund supported bonds decreased by 13%, relative to the 2011-13 authorization (yet the bill would increase the use of such bonds by 19%). Furthermore, because of slow revenue growth and accumulated, outstanding bond principal yet to be paid (including authorized, but as yet unused, bonding, like the $225 million authorized for the Stillwater bridge project), it would be difficult to lower the debt service percentage by cutting bonds alone. In a simulation prepared by the Department for the Commission, it was estimated that the debt service percentage would remain above the 2011-12 level (13.4%) for the entire 10-year period even if no new bonds were authorized for that entire period. Consequently, even fairly significant reductions to the bill's proposed bonding level would not result in a decrease in this percentage if no changes are made to transportation fund revenues.

13. Following the 2013-15 biennium, there will likely be continuing demands in the state highway program that could equal or exceed the funding levels provided in the Governor's bill. The following points describe some of these future demands, based, in part, on the findings and recommendations of the Wisconsin Transportation Finance and Policy Commission.

Potential Future Highway Program Demands

14. The bill would provide $500 million over the biennium for the Zoo Interchange reconstruction project. Although this is less than had originally been planned for the project in the 2013-15 biennium, the Department indicates that the project can be kept on schedule for completion

in 2018 if sufficient funds are provided in the next two biennia. Based on the revised funding schedule, an estimated $646 million would be needed in the 2015-17 biennium, followed by an estimated $18 million in the 2017-19 biennium, to maintain that completion date.

15. Following the completion of the Zoo Interchange, major work would continue on the mainline of the I-94 North-South Freeway reconstruction project in Milwaukee, Racine, and Kenosha counties (work on certain interchanges and frontage roads associated with that project will also continue in the interim, including in the 2013-15 biennium). Under the Department's current schedule for the North-South Freeway, $360 million would be needed in the 2017-19 biennium and $450 million would be needed in the 2019-21 biennium to complete the project in 2021.

16. Since most of the southeast Wisconsin freeways were built 40 to 50 years ago, many are now or will soon reach the end of their serviceable life and, therefore, require complete reconstruction. Consequently, although the estimated biennial cost of the North-South freeway project is lower, relative to the Zoo Interchange funding needs, some preliminary work may need to begin on other projects to maintain a steady reconstruction schedule. The Department anticipates, for instance, that design work and real estate acquisition for the proposed reconstruction of the I-94 East-West freeway (70th Street to 25th Street) and Stadium Interchange in Milwaukee County would occur between 2014 and 2018, in advance of construction beginning in 2019. The Transportation Finance and Policy Commission noted that reconstruction projects on these and other southeast Wisconsin freeway system projects will require average, annual expenditures of $250 million to $300 million over the next 20 years.

17. The bill would provide $367.8 million annually for the major highway development program, a 1% decrease from the 2012-13 funding level (although the amount of bonding for the program would increase by 10.7%, to $202.3 million annually). According to the Department's most recent financial status report for the program, there are 19 currently enumerated projects with estimated remaining costs totaling $2.4 billion. In addition, there are 10 potential projects under study (not yet enumerated). The Transportation Finance and Policy Commission recommended a $100 million annual increase for the program, with the intent of finishing all currently enumerated projects, plus five of the 10 currently under study (although which five is not specified in the report), by the end of the 10-year period. According to information prepared by the Department for the Commission, it would take until 2030 to complete the currently enumerated projects, plus five additional projects, if the funding for the program is maintained at the 2012-13 level. Because the major highway development program typically addresses high-profile traffic congestion and safety problems, these projects often have vocal public support, and the Governor and Legislature may be called upon in future biennia to accelerate the schedule to complete the projects currently under study.

18. Although it would not be funded with bonds under the bill, the state highway rehabilitation program is the Department's largest program, and so is an important part of any general discussion of future transportation demands. The bill would provide $815.6 million for the program annually, which would be a 1% decrease from the 2012-13 funding level. The Transportation Finance and Policy Commission, however, recommended a $179.0 million increase for the program, relative to the 2012-13 funding level. At that level, the Department projects that

the state's backbone highways (interstates and other principal freeways and expressways) could be maintained at the current condition (7% of miles rated poor or below using numerical rating systems). But even with that additional funding, the Department's highway condition modeling suggests that conditions would begin to decline by the end of 10 years on non-backbone routes. Currently, 23% of the non-backbone highways are rated at a condition of poor or below, but this would increase to 30% by the end of the 10-year period under the Commission's recommendation. By contrast, if funding for the program is maintained at the 2012-13 level, conditions on both backbone and non-backbone highways would deteriorate. The percentage of backbone highways rated at poor or below would increase from 7% to 23% and the percentage of non-backbone routes rated poor or below would increase from 23% to 47%. In future biennia, the Governor and Legislature may be called upon to provide additional funding for highway rehabilitation to prevent that deterioration.

19. The Transportation Finance and Policy Commission's work highlights the difficult decisions that lie ahead for legislators with regards to transportation expenditures and revenues. In the 2013-15 and future biennia, the Legislature may need to either make significant reductions in funding for programs, increase revenues to the transportation fund, or some combination of both strategies in order to stabilize transportation fund debt service. In the short run, the Governor's bill would address transportation program demands by increasing the use of transportation bonds and relying on general fund-supported bonds and current revenues from other funds to supplement traditional transportation fund revenues. The following points describe the use of resources from the general fund and the petroleum inspection fund to supplement traditional transportation fund revenues.

Use of Other Fund Resources for Transportation Programs

20. Under a provision enacted as part of the 2011-13 biennial budget, an annual transfer is made from the general fund to the transportation fund equal to 0.25% of general fund taxes, as published in the biennial budget act's general fund condition statement (with a minimum transfer established at $35,127,000). Under the bill, this transfer is estimated at $35,127,000 in 2013-14 and $36,302,500 in 2014-15. An annual transfer of $6,258,500 is also made to the transportation fund from the petroleum inspection fund, a transfer that has been made since 2004-05 and that would continue for both years of the 2013-15 biennium.

21. In addition to these ongoing transfers, recent budgets have made one-time transfers from these funds. The 2011-13 budget transferred an additional $125,000,000 from the general fund and an additional $39,000,000 from the petroleum inspection fund. In the 2013-15 biennium, the bill would transfer, to the transportation fund, $23,000,000 from the general fund and $32,000,000 from the petroleum inspection fund, in addition to the ongoing, current law transfers from these funds.

22. The other forms of assistance from the general fund for transportation programs under the bill include a $200,000,000 authorization of general fund-supported bonds for the Zoo Interchange reconstruction project and a shift of the funding source for the mass transit assistance program (totaling $106,478,300) from the transportation fund to the general fund in 2014-15.

23. Proponents for the use of general fund revenues or general fund-supported bonding for transportation generally make three arguments in support of their position. First, they point out that transportation programs lost funding when, in earlier biennia, transportation fund revenues were transferred to the general fund. The use of general fund resources now serves the purpose of compensating transportation programs for those transfers. In submitting his budget, the Governor used this justification for the transfer of $23 million from the general fund to the transportation fund. Second, they argue that several transportation programs have generalized benefits that go beyond transportation users, and so it is justified to use revenues generated from general taxation. Finally, they argue that the transportation fund is for the collection of user fees from transportation system users, but not all transportation fund appropriations are supported by fees from users of the associated transportation systems and so either the fund should be supplemented with general fund revenues or the programs for those systems should be funded from the general fund. [The specific use of general fund revenues for mass transit assistance will be addressed in more detail in a subsequent LFB Issue Paper.]

24. Although the use of general fund revenues and bonds has been justified as a means of compensating for past transfers out of the transportation fund, under provisions of the bill the cumulative use of general fund revenues and bonds would exceed the accumulated transfers by the end of the 2013-15 biennium. The following table shows the 10-year history of transfers (or other inter-fund assistance) between the transportation fund and the general fund, plus the proposed use of general fund resources for transportation programs in the 2013-15 biennium under the bill, and the 12-year cumulative total. In the table, a loss to transportation programs is expressed as a negative number, while the use of general fund bonds or revenues for transportation programs is expressed as a positive number. In the last two biennia and the 2013-15 biennium, the net, positive totals reflect a gain to transportation programs, and the 12-year total, $300.8 million, reflects what would be the cumulative gain for transportation programs under the bill.

Net Loss/Gain to Transportation Programs Due to Transfers
($ in Millions)

	2003-05	2005-07	2007-09	2009-11	2011-13	2013-15**	12-Year Total
Transfers and Appropriations	-$682.6	-$431.7	-$162.0	-$125.6	$0.0	$0.0	-$1,401.9
General Fund-Supported Bonds	565.5	250.0	50.0	204.7	115.4	$200.0	1,385.6
Reverse Transfers	0.0	0.0	0.0	0.0	160.1	200.9***	361.0
Trans. Fund Debt Service	-43.9*	0.0	0.0	0.0	0.0	0.0	-43.9
Total Loss(-)/Gain(+)	-$161.0	-$181.7	-$112.0	$79.1	$275.5	$400.9	$300.8

* In the 2003-05 biennium, debt service on replacement bonds was initially paid from the transportation fund.
** Amounts reflect the Governor's budget proposal.
*** For 2013-15, "reverse transfers" includes the proposed use of general fund revenues for mass transit assistance, plus ongoing and proposed one-time transfers.

25. The proposed $32 million transfer from the petroleum inspection fund, as noted above, would be the latest in a series of one-time transfers from that fund to the transportation fund.

Because petroleum inspection fund revenues are derived from a fee on petroleum products, including motor fuel, transfers from this fund to the transportation fund are sometimes justified by reference to the similarity of this fee to the motor fuel tax, a transportation system user fee. A counter argument could also be made, however, that the petroleum inspection fee was expanded for the specific purpose related to the mitigation of the environmental impact of the use of petroleum on soil and groundwater, not as a transportation system user fee. From this perspective, if revenues in the petroleum inspection fund currently exceed the amount necessary to serve that purpose, the more prudent approach would be to use those excess revenues to retire debt in that program or reduce the amount of the fee.

26. In the case of both the general fund and petroleum inspection fund transfers and other interfund assistance, plausible arguments can be made both for and against the proposals. In both cases, however, these decisions have a real impact on the allocation of available resources for the programs funded from each source. The use of general fund revenues and bonds for transportation programs, for instance, would reduce the amount of current and future revenues that can be applied to general fund-supported programs or the amount that can be used to offset the impact of proposed reductions to income tax rates. Likewise, a decision to eliminate or reduce the use of general fund or petroleum inspection fund revenues for transportation programs would either require an increase in the use of transportation fund-supported bonds, a decrease in transportation program spending, the enactment of increases to transportation fund taxes or fees, or some combination of these approaches.

SUMMARY

This paper provides a general discussion of the Governor's proposed use of transportation fund-supported bonds and several proposals that would involve the use of the general fund and petroleum inspection fund for transportation purposes. Concerns over the impact of the use of transportation bonding, as well as, perhaps, the perceived inadequacy of revenues generated from traditional transportation fund taxes and fees, led the Legislature to establish the Wisconsin Transportation Finance and Policy Commission. That Commission, after a consideration of the condition of the state and local transportation systems and trends in bonding and transportation fund revenues, made a series of recommendations for both transportation program spending and revenues. In short, the Commission concluded that program funding increases would be needed in various areas to preserve the current condition of the state's transportation systems, as well as respond to growing demand in some areas. The current finance structure for transportation programs, however, was found to be inadequate to accomplish the Commission's recommended funding levels. In response, the Commission recommended a series of transportation tax and fee increases to provide adequate revenue, maintain the state's user fee supported system, and maintain transportation fund debt service at a manageable and stable level.

The Governor's bill would meet the Commission's expenditure recommendations for some programs, at least in the short run, such as the southeast Wisconsin freeway megaprojects program, but would fund other programs, such as state highway rehabilitation, major highway development, and local assistance below the recommended levels. The Governor's bill would not, however, include any of the Commission's revenue recommendations. Instead, the bill would provide for increases for large highway and bridge projects through the use of additional transportation fund-supported bonding and additional use of general fund and petroleum inspection fund revenues and general fund-supported bonds.

If the Committee decides that the proposed use of transportation fund-supported bonds or resources from other funds should be reduced, such modifications will have implications for the funding levels for one or more transportation programs or, alternatively, will require increases to transportation fund taxes and fees. As is apparent from the Transportation Finance and Policy Commission's 10-year revenue and debt service scenarios, a decision to reduce current bonding without changing transportation fund revenues would have a limited impact on the percentage of transportation fund revenues devoted to debt service, both because of the level of transportation bond debt already accumulated and because transportation fund revenues are projected to grow at a slow rate throughout the forecast period.

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