



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

2017

Joint Committee on Finance

Paper #595

Transportation Fund Condition Statement (Transportation -- Transportation Finance)

Base Agency

[LFB 2017-19 Budget Summary: Page 433, #5; Page 434, #7;
Page 435, #9, Page 435, #10, Page 436, #11]

The Governor's budget was based on revenue and debt service estimates made prior to the time of introduction of the bills (AB 64/SB 30). Since that time, this office has met with Department of Transportation (DOT) officials regarding estimated revenues to the transportation fund in 2016-17, and the 2017-19 biennium and Department of Administration officials regarding estimated debt service expenditures from the fund for the same period. The resulting estimates are reflected in the fund condition statement shown below. At the time of introduction, the 2017-19 biennium-ending fund balance was estimated at \$8.4 million. However, due primarily to projections of higher motor fuel tax revenues and lower debt service costs in the current year and in the biennium, the transportation fund is now projected to have a biennium-ending balance of \$101.8 million. This paper describes the main factors that account for the estimated \$93.4 million increase in the 2017-19 ending balance.

TABLE 1**Transportation Fund Condition**

	<u>2017-18</u>	<u>2018-19</u>
Unappropriated Balance, July 1	\$145,388,800	\$96,461,100
Revenues		
Motor Fuel Tax	\$1,046,054,800	\$1,046,558,600
Vehicle Registration	711,093,200	714,270,200
Less Revenue Bond Debt Service	-225,366,600	-226,634,900
General Fund Transfer	39,932,900	41,432,500
Petroleum Inspection Fund Transfers	30,258,500	30,258,500
Driver's License Fees	39,722,400	39,747,300
Miscellaneous Motor Vehicle Fees	29,649,400	29,818,000
Aeronautical Taxes and Fees	8,024,800	8,036,400
Railroad Taxes and Fees	43,850,200	43,944,700
Miscellaneous Departmental Revenues	20,820,500	20,067,000
Investment Earnings	<u>1,000,000</u>	<u>1,000,000</u>
Total Annual Revenues	\$1,745,040,100	\$1,748,498,300
Total Available	\$1,890,428,900	\$1,844,959,400
Appropriations and Reserves		
DOT Appropriations	\$1,766,335,700	\$1,710,523,600
Other Agency Appropriations	25,986,400	26,048,000
Less Estimated Lapses	-3,500,000	-3,500,000
Compensation and Other Reserves	<u>5,145,700</u>	<u>10,137,000</u>
Net Appropriations and Reserves	\$1,793,967,800	\$1,743,208,600
Unappropriated Balance, June 30	\$96,461,100	\$101,750,800

Opening Balance

The estimated opening balance of the transportation fund at the time of introduction of the Governor's 2017-19 budget recommendations (AB 64/SB 30) was \$107.6 million. This was \$86.4 million higher than was anticipated under 2015 Act 55, the 2015-17 biennial budget act. One reason the opening balance was higher than expected under the Governor's bill is due to an Act 55 provision, as affected by the Joint Committee on Finance's action in November, 2015. This provision required a \$44.8 million reduction in SEG-supported, general obligation bonding provided to the major highway development program due to actual 2015-16 transportation fund revenues exceeding Act 55 estimates. Act 55 also provided DOT the authority to submit a request in 2016-17 to replace the bonding reduction with the available transportation fund revenue. However, AB 64/SB 30 assume that DOT will not request these funds in 2016-17, which allows the \$44.8 million to remain in the 2017-19 opening balance, and instead appropriates the funds in the 2017-19 biennium.

As a result of these decisions and reestimates of other revenue elements of the fund, the estimated ending balance for 2016-17 (the 2017-19 biennium opening balance) is estimated at \$145.4 million, or \$37.8 million higher than under the Governor's budget. The other elements that account for the opening balance increase compared to the bill are summarized in the following table.

TABLE 2

**Change to 2017-19 Opening Balance, Relative to AB 64/SB 30
(\$ in Millions)**

<u>Item</u>	<u>Change to Balance</u>
Debt Service Savings	\$17.1
Motor Fuel Tax Revenues	12.0
Vehicle Registration Revenues	4.4
All Other Revenues	<u>4.3</u>
Total	\$37.8

2017-19 Estimated Revenues and Expenditures

Compared to AB 64/SB 30, revenues in the biennium are estimated to increase by \$41.9 million, estimated debt service expenditures are expected to decrease by \$12.0 million, and other agency appropriations are estimated to decrease by approximately \$1.7 million (total of \$55.6 million). The following sections outline the estimated changes by category of revenue as well as the changes in debt service and other appropriations.

Motor Vehicle Fuel Tax

Compared to the amounts in the bill, motor vehicle fuel tax revenues are estimated to be \$16.1 million higher in 2017-18 and \$18.0 million higher in 2018-19. Under the Governor's bill, estimated fuel consumption and revenues were declining from the 2015-16 level (\$1,037.7 million) in each of the three forecast years. The higher revised estimates are primarily due to higher than expected consumption and fuel tax collections in the current year compared to the earlier estimate. In addition, these estimates now assume modest growth in consumption in the 2017-19 biennium rather than the declining consumption estimated under the bill. The modest growth in biennium is the result of slight forecasted improvement in Wisconsin unemployment as well the Industrial Production Index, which are key forecasting variables for diesel fuel consumption, compared to the earlier estimates. The following table indicates the current estimate of motor vehicle fuel tax revenues compared to the estimates in the bill for the current and next biennia.

TABLE 3**Motor Vehicle Fuel Tax Revenues
(\$ in Millions)**

	<u>Bill</u>	<u>Revised Estimate</u>	<u>Difference</u>	<u>Percent Change</u>	<u>Year-to-Year Rate of Change</u>
2015-17 Biennium					
2015-16*	\$1,037.7	\$1,037.7	\$0.0	0.0%	
2016-17	1,028.3	1,040.4	12.1	1.2	0.3%
2017-19 Biennium					
2017-18	\$1,030.0	\$1,046.1	\$16.1	1.6%	0.5%
2018-19	1,028.5	1,046.5	18.0	1.8	0.1

*Actual

Vehicle Registration-Related Revenue

Gross vehicle registration revenues are projected to be higher than earlier estimates by \$4.1 million in 2017-18 and \$4.4 million in 2018-19. The higher registration revenue estimates are approximately 0.6% higher than the earlier estimates for each year in the biennium. Actual annual growth over the prior year would be -0.1% in 2016-17, 3.0% for 2017-18, and 0.5% in 2018-19.

Other Fund Revenues

Other transportation fund revenues are projected to be, in aggregate, lower than budget estimates by \$0.8 million over the biennium compared to the estimates in the bill. This is the net effect of estimated increases in miscellaneous departmental revenue (\$1.2 million) and estimated decreases in railroad ad valorem taxes (-\$1.8 million) and aeronautical taxes and fees (-\$0.2 million). These revenue sources have been updated to reflect projected values and projected property tax rates, as well as the December, 2016, payments.

Debt Service Estimates

Debt service on transportation revenue bonds are expected to be lower than the amounts included under the Governor's bill by \$7.7 million in 2017-18 and \$4.4 million in 2018-19. However, because debt service on these bonds is the first draw on vehicle registration fee revenues, with the remaining revenues then deposited to the transportation fund, the lower debt service on these bonds each year has the effect of increasing net revenues to the fund in the biennium by the amount of the debt service reduction in each year. The lower estimated debt service on transportation revenue bonds is primarily due to a refinancing of a portion of outstanding principal on these bonds, which is expected to be completed in late May or early June of this year. These reestimates include the Governor's recommendations for the

authorization of \$165.2 million in transportation revenue bonds.

Estimated debt service on general obligation bonds are estimated to be \$6,080,600 lower than the estimated amounts under AB 64/SB 30 for 2017-18 and \$6,137,700 higher than the earlier estimates in 2018-19. This results in debt service payments on these bonds being an estimated \$57,100 higher in the biennium compared to AB 64/SB 30. The primary reason for the estimated changes in the annual amounts of debt service on these bonds is a delay in the expected issuance of previously authorized general obligation bonds compared to the earlier issuance schedule.

Based on estimated changes to revenues as well as debt service expenditures, the following table indicates annual transportation fund debt service as a percentage of gross transportation fund revenues (excluding transfers to the fund).

TABLE 4

Gross Transportation Fund Revenue*
(Excluding Federal Aid, Bond Revenue, and Transfers from Other Funds)
and Transportation Fund-Supported Debt Service
(\$ in Millions)

<u>Fiscal Year</u>	<u>Transportation Fund Debt Service</u>	<u>Gross Transportation Fund Revenue</u>	<u>Debt Service as % of Revenue</u>
2015-16	\$340.8	\$1,867.4	18.2%
2016-17	356.9	1,875.7	19.0
2017-18	380.7	1,900.2	20.0
2018-19	415.2	1,903.4	21.8

*Revenue is shown before the payment of revenue bond debt service.

Note: Debt service and revenue values shown for 2015-16 are actual, while those values for other years are estimated.

Other Agency Appropriations

Transfers to the conservation fund under the motorboat, snowmobile, and all-terrain vehicle formulas are projected, in aggregate, to decrease by \$0.85 million annually in the biennium, which results in a corresponding increase in the balance equal to those amounts each year.

Summary

The revenue estimates upon which the Governor's transportation budget were based were generally conducted in the fall of 2016, at the time of the Department's biennial budget request submittal. Since that time, actual collections through the first three quarters of 2016-17 have improved base year projected revenues. Along with a sustained stable outlook for collections for fund revenues, primarily from the motor fuel tax, this results in higher estimated total revenues to the fund in the 2017-19 biennium. Revised debt service estimates on transportation revenue

bonds also lead to higher net revenues to the fund. Reductions in other agency appropriations lead to lower net appropriations than originally estimated. When combined with a larger, estimated opening balance, the revised revenue and spending estimates for the 2017-19 biennium, under the provisions of AB 64/SB 30, produce an estimated closing balance of \$101.8 million.

Table 5 displays the reestimates which produce the projected \$101.8 million, June 30, 2019, transportation fund balance.

TABLE 5

**2018-19 Transportation Fund Ending Balance
(\$ in Millions)**

Balance, June 30, 2017 (AB 64/SB 30)	\$8.4
Reestimates -- Change to Balance	
2017-18 Opening Balance	\$37.8
Motor Vehicle Fuel Tax	34.1
Vehicle Registration	8.5
Other Revenue	-0.8
Debt Service	12.1
Other Agency Appropriations	<u>1.7</u>
Total Reestimates	\$93.4
Balance, June 30, 2019	\$101.8

Prepared by: Al Runde