



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>

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Joint Committee on Finance

Paper #760

Fund Condition Statement (Transportation -- Transportation Finance)

[LFB 2023-25 Budget Summary: Page 618, #1; Page 624, #9;
Page 625, Item #11, and Page 626, Item #12, and #13]

Assembly Bill 43/Senate Bill 70, (AB 43/SB 70), were based on transportation fund revenue and segregated (SEG) debt service estimates made prior to the time of introduction of the bills. Since that time, this office has met with Department of Transportation (DOT) officials regarding estimated revenues to the transportation fund in 2022-23, and the 2023-25 biennium, net of transportation revenue bond debt service. Also, since that time, the Committee adopted Motion #12, which included DOT's agency standard budget adjustments, adjusted to reflect a 5% turnover rate, and received updated information from the Department of Administration officials regarding estimated debt service expenditures from the fund on general obligation bonds for the same period.

In addition, on May 2, 2023, under Motion #20, the Joint Finance Committee adopted ASA 1 to AB 43/SSA 1 to SB 70, which establishes current law revenues and adjusted base SEG appropriations for the 2023-25 biennium. As a result, the recommended revenue increases under AB 43/SB 70 associated with the proposed transfers from the general fund to the transportation fund would not yet be included in the 2023-25 budget bill. These transfers equaled: (a) \$43,625,700 in 2023-24 and \$52,895,500 in 2024-25 associated with the estimated annual sales tax revenue from the sale of automotive parts, accessories, repair and maintenance services, and tires (APART); (b) \$39,300,000 in 2023-24 and \$55,100,000 in 2024-25 associated with estimated annual sales tax revenue from the sale of electric vehicles; and (c) \$9,000,000 in 2024-25 to offset the loss in railroad property tax revenues to the fund associated with the repeal of personal property tax under AB 43/SB70. Finally, under motion #10, the Committee removed from budget consideration, the AB 43/SB 70 recommendation to transfer \$379.4 million from the general fund to a newly-created transportation revenue bond defeasance trust fund to pay principal and interest on outstanding transportation revenue bonds, which would have reduced transportation revenue bond debt service by \$76.3 million in 2024-25. Because transportation revenue bond debt service is an offset to registration revenues to the transportation fund, this action decreases transportation fund revenues by \$76.3 million in 2024-25.

ASA 1/SSA 1 would provide adjusted base funding levels from the segregated (SEG) transportation fund for DOT of \$2,053,283,000 annually, and other state agencies of \$27,830,400 annually for the 2023-25 biennium. Subsequently, as mentioned, under Motion #12, the Committee made adjustments to these adjusted base SEG appropriations funded from the transportation fund to reflect standard budget adjustments and sum sufficient reestimates.

Based on the Committee's action to date, as well as this reestimate of current law revenues and transportation revenue bond debt service, net transportation fund SEG revenues after revenue bond debt service would be lower by \$126,613,900 in 2023-24 and \$258,193,300 in 2024-25. Compared to AB 43/SB 70, transportation fund SEG appropriations, including reserves and lapses, under the Committee's actions to date would be: (a) lower by \$144,262,800 in 2023-24 and by \$213,011,100 in 2024-25 for DOT; and (b) lower by \$154,700 in 2023-24 and higher by \$228,000 in 2024-25 for other state agencies with appropriations funded from the transportation fund.

Opening Balance

At the time of the introduction of AB 43/SB 70, the estimated opening balance of the transportation fund for the 2023-25 biennium was estimated to be \$83,404,100. Subsequently, using the updated estimates of revenues to, and actual expenditures from, the fund for 2022-23, the ending balance for 2022-23 (the 2023-25 opening balance) for the fund is estimated at \$92.5 million. This is \$9.1 million above the AB 47/SB 70 projection of \$83.4 million. The elements that account for the opening balance increase compared to the previous estimates are summarized in the following table.

TABLE 1

Change to the Estimated 2023-25 Opening Balance

<u>Item</u>	<u>Change to Balance</u>
Revenues	
Motor Fuel Tax	-\$2,821,200
Registration Revenues	-7,989,400
Title Revenues	704,000
Misc. Motor Vehicle Fees	537,800
Petroleum Inspection Free 1¢ Deposit	-334,700
Driver's License Fees	-494,300
Railroad Property Taxes	-2,031,000
Aeronautical Taxes and Fees	-160,200
Misc. Department Revenues	-325,500
Investment Earnings	<u>22,000,000</u>
Total Revenues	\$9,085,500

The following fund condition reflects the reestimate of the opening balance, transportation fund revenues, net of current law transportation revenue bond debt service, and includes SEG appropriations from the fund under ASA 1/SSA 1, as amended by Committee actions to date. The ending balance shown in this fund condition is prior to the Committee completing its actions on the 2023-25 transportation budget.

TABLE 2**Transportation Fund Condition**

Revenues	<u>2023-24</u>	<u>2024-25</u>
Unappropriated Balance, July 1	\$92,489,600	\$50,297,600
Motor Fuel Tax	\$1,075,974,300	\$1,077,175,800
Registration and Title Fees		
Registration Revenues	714,043,700	715,255,700
Title Revenues	208,676,100	223,176,800
Miscellaneous Motor Vehicle Fees	30,390,600	30,576,200
Less Revenue Bond Debt Service	-200,858,400	-194,894,700
Petroleum Inspection Fee One-Cent Deposit	38,690,200	38,733,400
Driver's License Fees	38,601,500	38,536,400
Railroad Property Taxes	34,347,200	38,307,300
Aeronautical Fees and Taxes	6,616,200	7,377,100
Miscellaneous Department Revenues	14,236,200	13,859,000
Investment Earnings	3,000,000	3,000,000
Transfers to the Fund		
General Fund Transfer	53,484,500	55,373,800
Petroleum Inspection Fund Unencumbered Balance	17,103,800	17,146,500
Petroleum Inspection Fund Ongoing Transfer	<u>6,258,500</u>	<u>6,258,500</u>
 Total Annual Revenues	 \$2,040,564,400	 \$2,069,881,800
 Total Available	 \$2,133,054,000	 \$2,120,179,400
 Appropriations and Reserves		
DOT Appropriations (Adjusted Base)	\$2,053,283,000	\$2,053,283,000
Motion #12		
Standard Budget Adjustments	2,243,700	2,243,700
Sum Sufficient Debt Service Reestimates	-7,569,800	1,401,000
Less Estimated Lapses	-3,000,000	-3,000,000
Compensation and Other Fund Reserves	<u>10,000,000</u>	<u>10,000,000</u>
Total DOT Appropriations and Reserves	\$2,054,956,900	\$2,063,927,700
 Other Agency Appropriations (Adjusted Base)	 \$27,830,400	 \$27,830,400
Motion #12		
Standard Budget Adjustments	123,800	133,100
Sum Sufficient Reestimates	<u>-154,700</u>	<u>228,000</u>
Total Other Agency Appropriations	\$27,799,500	\$28,191,500
 Total Appropriations, Reserves, and Lapses	 \$2,082,756,400	 \$2,092,119,200
 Unappropriated Balance, June 30	 \$50,297,600	 \$28,060,200

2023-25 Estimated Revenues

Compared to AB 43/SB 70, net revenues to the transportation fund in biennium are estimated to be lower by \$126.6 million in 2023-24 and \$258.2 million in 2024-25. However, net current law revenues, exclusive of the proposed additional general fund transfers under AB 43/SB 70, are estimated to be lower by only \$43.7 million in 2023-24 and \$64.9 million in 2024-25. The estimated lower net revenues in 2024-25 also reflects the \$76.3 million in increased debt service on transportation revenue bonds associated with the Committee's decision to remove the recommended defeasance of this debt from the bills which results in a corresponding reduction in net revenues.

Motor Vehicle Fuel Tax

Compared to the amounts in AB 43/SB 70, motor vehicle fuel tax revenues are estimated to be lower by \$28.8 million in 2023-24 and \$62.0 million in 2024-25. The lower revised estimates are primarily due to lower than expected consumption and fuel tax collections each year due to changes in economic and fuel consumption forecasts for the biennium compared to the earlier estimates. These estimates now assume relatively flat fuel consumption from 2021-22, in which travel and fuel usage rebounded slightly from the pandemic, through the 2023-25 biennium. Fuel tax revenues are now expected to range from \$1,065.2 million to \$1,077.2 million over the four-year period from 2021-22, through the 2024-25 forecast year. The following table indicates the current estimate of motor vehicle fuel tax revenues compared to the estimates in AB 43/SB 70 for the current and next biennia.

TABLE 3

Motor Vehicle Fuel Tax Revenues (\$ in Millions)

	AB 43/SB 70	Revised Estimates			Year-to-Year
	<u>Estimate</u>	<u>Estimate</u>	<u>Difference</u>	<u>% Change</u>	<u>% Change</u>
2021-23 Biennium					
2021-22	\$1,070.0				
2022-23	1,068.0	\$1,065.2	-\$2.8	-0.3%	-0.4%
2023-25 Biennium					
2023-24	\$1,104.8	\$1,076.0	-\$28.8	-2.6%	1.0%
2024-25	1,139.1	1,077.2	-61.9	-5.4	0.1

Vehicle Registration and Title Revenues

Gross vehicle registration revenues, prior to the transportation revenue bond debt service, are projected to be lower by \$5.9 million lower in 2023-24 and \$10.4 million in 2024-25 compared to the AB 43/SB 70 estimates. These gross registration fee revenue estimates are lower than the earlier estimates by 0.8% for 2023-24 and 1.4% for 2024-25. Vehicle registrations would remain fairly steady through the biennium with registration revenues projected to equal \$714.0 million for

2023-24 and \$715.3 million in 2024-25.

Under 2019 Act 9 the title and title transfer fees were increased by \$95, from \$69.50 to \$164.50, including supplemental title fees, effective October 1, 2019. Thus, changes in the volume of vehicles titled, through an original title or a title transfer, have a more substantial impact on the financial condition of the transportation fund than in past years. Gross title fees are expected to be lower by \$13.5 million in 2023-24 and lower by \$9.6 million in 2024-25, compared to the earlier estimates. Like motor fuel, title fee revenues, which are derived from sales of new cars or transfers of ownership of existing cars, were slowed by the pandemic as well as microchip supply issues, but seem to have rebounded somewhat with current projections of 2024-25 title fee revenues expected to exceed 2021-22 actuals by nearly \$10.0 million. The percentage growth over the prior year would be estimated at -2.7% in 2022-23, 0.6% in 2023-24 and 6.9% in 2024-25.

Other Fund Revenues

Other transportation fund revenues are projected to be, in aggregate, lower by \$0.6 million in 2023-24 and higher by \$0.2 million in 2024-25. This is the net effect of the following current law reestimates: (a) lower amounts associated with the 0.25% current law GPR Transfer of \$0.8 million in 2023-24 and \$1.0 million in 2024-25; (b) lower amounts associated with the one-cent petroleum inspection fee of \$1.0 million in 2023-24 and \$2.2 million in 2024-25; (c) higher estimated amounts associated with the miscellaneous registration fee revenues of \$0.5 million annually; (d) lower amounts of drivers license fee revenues of \$0.5 million annually; (e) lower amounts of aeronautical taxes and fees of \$0.04 million in 2023-24, with higher amounts of these revenues of \$0.3 million in 2024-25; (f) higher amounts of railroad property taxes of \$1.7 million in 2023-24 and \$3.4 million in 2024-25; and (g) lower amounts of miscellaneous Department revenue of \$0.3 million annually. The AB 43/SB 70 recommendation to repeal the taxation of railroad personal property, along with the local taxation of the all personal property, which would reduce railroad property tax revenues to the fund by an estimated \$9.0 million in 2024-25 and increase GPR transfers to the fund \$9.0 million, has not yet been addressed by the Committee. Also, AB 43/SB 70 included revenues of \$11,000 in 2023-24 and \$8,000 in 2024-25 associated with a \$1 electric vehicle fee sticker recommendation that the Committee has yet to address.

Transportation Revenue Bond Debt Service

Transportation revenue bond debt service is estimated at \$200.9 million in 2023-24 and \$198.9 million in 2024-25 on bonds issued to date and the expected issuance of remaining bonding authorized under current law. Transportation revenue bond debt service is an offset to revenues from vehicle registration and titles fees. Annual revenue bond debt service amounts are estimated to be lower by \$5.1 million in 2023-24 and higher by \$68.4 million in 2024-25, compared to the amounts included in AB 43/SB 70, which results in an increase in net revenues to the fund in 2023-24 by the same amount and a decrease in net revenues in 2024-25 by that same amount. Of these amounts debt service reductions of \$5.1 million in 2023-24 and \$7.8 million in 2024-25 are associated with the estimate of current law of transportation revenue bond debt service. The remaining difference in 2024-25 is associated with the Committee's earlier action to delete the proposed general fund transfer related to the defeasement of transportation revenue bond debt service, which would have reduced debt service on these bonds by \$76.3 million in 2024-25. These estimated debt service amounts do not include debt service on any additional transportation

revenue bonds for the major highway development program and for DOT administrative facilities, which would be authorized at \$149.2 million and \$18.5 million respectively under AB 43/SB 70. The Committee has yet to address those items.

Earlier Committee Actions on Appropriations

On May 2, 2023, under Motion #20, the Joint Finance Committee adopted ASA 1 to AB 43/SSA 1 to SB 70, which provides adjusted base funding levels from the SEG transportation fund for DOT and other state agencies for the 2023-25 biennium. In addition, the Committee adopted Motion #12, which included DOT's agency standard budget adjustments, adjusted to reflect a 5% turnover rate, and adopted reestimates of SEG debt service expenditures on existing general obligation bond debt in the 2023-25 biennium. Thus, compared to AB 43/SB 70, transportation fund SEG appropriations, including reserves and lapses, under the Committee's actions to date would be: (a) lower by \$144,262,800 in 2023-24 and by \$213,011,100 in 2024-25 for DOT; and (b) lower by \$154,700 in 2023-24 and higher by \$228,000 in 2024-25 for other state agencies with appropriations funded from the transportation fund.

Summary

The revenue estimates upon which the Governor's transportation budget were primarily based on estimates completed in the Fall of 2022, at the time of the Department's biennial budget request submittal. AB 43/SB 70 increased current law net revenues by \$82.9 million in 2023-24 and \$117.0 million in 2024-25, associated with the proposed additional GPR transfers to the fund. In addition, the bills would transfer GPR to the newly-created transportation revenue bond defeasance fund, which increased net revenues to the transportation fund by \$76.3 million associated with an initial debt service payment from the defeasance fund.

Adopting ASA 1/SSA 1 established the adjusted base level funding for the Department at \$2,053.3 million annually, which is lower than the DOT appropriations under the AB 43/SB 70 by \$138.9 million in 2023-24 and \$216.7 million in 2024-25. Under Motion #12, the Committee adjusted the base appropriations under ASA 1/SSA 1 to reflect debt service and sum sufficient appropriations reestimates by a total of: (a) -\$5.3 million in 2023-24 and \$3.6 million in 2024-25 for DOT appropriations; and (b) -\$0.2 million in 2023-24 and \$0.2 million in 2024-25 for other agency appropriations.

The lower appropriation levels under ASA 1/SSA 1 are more than offset by the \$375.8 million less in estimated revenues in the biennium, compared to the estimates included in AB 43/SB 70, despite a \$9.1 million higher 2023-24 opening balance. Of the changes in estimated revenues compared to AB 43/SB 70, \$190.9 million is associated with the proposed additional GPR sales tax transfers, which the Committee have yet to address, and \$76.3 million is associated with the proposed debt service defeasance recommendation that was removed under Motion #10. Incorporating these reestimates, and the Committee's action to date, results in a projected \$28.1 million, June 30, 2025, transportation fund balance before the Committee begins actions to complete the 2023-25 transportation budget. Table 4 provides a crosswalk of the fund condition balance under the Governor's bill, as modified by changes in revenue estimates and the appropriation levels under ASA 1/SSA 1 thru Committee actions to date.

TABLE 4

**2024-25 Transportation Fund Ending Balance
(\$ in Millions)**

Balance, June 30, 2025 (AB 43/SB 70)	\$46.6
Current Law Revenues -- Change to Balance	
2023-24 Opening Balance	\$9.1
Motor Fuel Tax	-90.8
Registration Revenues	-16.3
Title Revenues	-23.1
Other Revenue	-0.4
Revenue Bond Debt Service*	<u>12.9</u>
Current Law Revenue -- Reestimate	-\$108.6
AB 43/SB 70 Revenues	
Revenue Bond Defeasance (removed)	-\$76.3
Additional GPR Transfers (not yet addressed)	
APART Sales Tax Transfer	-96.5
Electric Vehicles Sales Tax Transfer	-94.4
Railroad Personal Property Tax	<u>0.0</u> **
AB 43/SB 70 Revenue Provisions	-\$267.2
Total Change in Estimated Revenue	-\$375.8
Expenditure Changes (ASA 1/SSA 1, to date)	
DOT Appropriations and Reserves	-\$357.3
Other Agency Appropriations	<u>0.0</u>
Total Change in Expenditures thru Actions to Date	-\$357.3
Balance, June 30, 2025	\$28.1

*The estimated higher transportation revenue bond debt service amounts decreases net revenues to the fund.

**If adopted, this provision would reduce SEG transportation fund revenues by \$9.0 million in 2024-25, which would be offset by a \$9.0 million GPR transfer to the fund in that year, resulting in no impact on the fund balance.

Prepared by: Al Runde

