



Legislative Fiscal Bureau

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February 25, 2021

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Transportation Fund Deficit Plan and Plan for Appropriations Adjustments to Allocate Additional Federal Aid

Under s. 85.62 of the statutes, if the Department of Transportation (DOT) determines that at the close of any biennium net appropriations and fund reserves from the transportation fund will exceed estimated transportation fund revenues by more than \$30.0 million, the Department is required to submit a plan to the Joint Committee on Finance under a 14-day passive review process, which eliminates the deficit by adjusting appropriations. The plan would be approved within 14 working days, unless the Committee's Co-chairs notify the Department that the Committee will schedule a meeting to review the plan.

Under s. 84.03(2)(b) of the statutes, if federal transportation aid received by the state differs from the amounts estimated for the state biennial budget by more or less than 5%, DOT is required to submit a plan to the Joint Committee on Finance for adjusting the Department's appropriations. After the plan is submitted, the Co-chairs of the Committee are required to jointly determine if the plan is complete. Once the plan has been declared complete, it would be approved within 14 days, unless the Committee's Co-chairs schedule a meeting to review the plan. If a meeting is scheduled, it must be held within the 14-day time frame.

On February 18, 2021, the Department submitted a combined deficit plan and federal aid allocation plan. On February 24, 2021, the Co-chairs of the Joint Committee on Finance determined the federal aid plan submitted by the Department was complete. Both plans would be approved on March 10 unless a meeting is scheduled to review them. If a meeting is scheduled on the federal plan, it must be held by March 10.

REQUEST

The Department of Transportation (DOT) requests the approval of a combined plan to address a projected deficit in the transportation fund of \$172.0 million at the close of 2020-21 and allocate the additional federal funding. To address the projected deficit, DOT's plan would: (a) request

Committee approval to lapse \$163.2 million from the balances of state highway improvement program, local assistance, and air and rail program segregated (SEG) continuing appropriations; and (b) use its existing authority to lapse \$8.8 million from various annual operating appropriations.

The Department also requests 2020-21 appropriation adjustments to allocate \$209.9 million in additional federal aid received through the Coronavirus Response and Relief Supplemental Appropriations Act of 2021, the Consolidated Appropriations Act of 2021, and the annual federal redistribution process that re-allocates unused obligation authority from other states.

The Department's combined plan would effectively use the additional \$209.9 million in federal funding to replace all but \$4.0 million of the \$163.2 million in lapses from transportation fund SEG continuing appropriation balances. As a result, most affected programs would have no net change in funding because the lapses from continuing SEG appropriation balances would be replaced with an identical amount of federal funding to the corresponding federal appropriation for each program. However, the state highway rehabilitation program would have a net increase in funding of \$25.7 and the local roads improvement program would have a net increase in funding of \$25.0 million, while four air and rail appropriations would each have net funding decreases of \$1.0 million.

Lastly, in a separate request, the Department requests the transfer of \$314,000 between two freight rail appropriations necessary to fund two intermodal freight facilities grants. This request would match the funding for the grants to the appropriate intermodal freight facilities grant program appropriation.

BACKGROUND -- DEFICIT PLAN

Transportation fund revenue collections did not keep pace with the appropriation levels established for the 2019-21 biennium, largely due to adverse effects from the COVID-19 pandemic. The COVID-19 pandemic resulted in decreased motor vehicle fuel sales and a decline in vehicle sales and associated title transfers. In 2019-20, net revenues after debt service were \$89.9 million below estimated amounts at the time of the passage of 2019 Act 9, the 2019-21 biennial budget act. The two primary sources of revenue for the transportation fund are the motor vehicle fuel tax and vehicle-related fees, which primarily consist of registration fees and title and title transfer fees. These two sources of revenue accounted for 92.6% of total revenues to the transportation fund in fiscal year 2019-20, with motor vehicle fuel tax revenues alone making up over half (50.8%) of revenue to the fund. In 2019-20, motor vehicle fuel tax and gross registration and title fee revenue collections respectively were \$62.1 million and \$54.2 million below estimated amounts for the 2019-21 biennium. These reductions were partially offset by higher than expected miscellaneous revenues, investment earnings, and transfers from the petroleum inspection fund, as well as lower than expected SEG debt service expenditures (\$20.0 million) and expenditure reductions from annual operating appropriations (\$8.3 million). In sum, the 2019-20 transportation fund had an ending balance of -\$27.1 million. However, the Department implemented an expenditure plan reduction plan that limited expenditures from SEG continuing appropriation balances by \$116.7 million. The Department reduced expenditures by placing \$116.7 million in unexpended balances from various state and local assistance program continuing appropriations in unallotted reserve. If these SEG expenditure reductions were included, the 2019-20 ending balance would have been \$89.6 million.

DOT indicates transportation fund collections continue to be negatively impacted in 2020-21 due to adverse effects from the COVID-19 pandemic. The Department projects that gross revenues will be \$122.3 million less in 2020-21 than the amount estimated in 2019 Act 9, including the motor vehicle fuel tax and title fees below their respective estimated amounts by approximately \$100.1 million (9.2%) and \$61.2 million (22.3%). However, in 2020-21, the lower revenues will be partially offset by an estimated \$44.9 million less in debt service on transportation revenue bonds due to slower than anticipated issuance as well as interest savings and bond premiums associated with a 2020 refinancing.

The below table displays the 2019-21 transportation fund condition, as estimated in 2019 Act 9 and as estimated by DOT in February 2021.

TABLE 1

**2019-21 Fund Condition
(in Millions)**

	2019 Act 9		Current	
	<u>2019-20</u>	<u>2020-21</u>	<u>2019-20</u>	<u>2020-21</u>
Unappropriated Balance, July 1	\$97.1	\$49.7	\$98.8	-\$27.1
Total Net Revenues	1,990.6	2,057.4	1,900.7	1,935.1
Total Available	2,087.6	2,107.1	1,999.5	1,908.0
Net Appropriations and Reserves	2,038.0	2,064.4	2,026.8	2,080.0
Unappropriated Balance, June 30	\$49.7	\$42.7	-\$27.1	-\$172.0

BACKGROUND -- FEDERAL PLAN

Under the Coronavirus Response and Relief Supplemental Appropriations Act of 2021, the Department was allocated \$186.6 million in additional federal aid for highway infrastructure programs as well as \$27.0 million in federal appropriation supplement as part of the Consolidated Appropriations Act of 2021. In addition, the Department was allocated \$50.0 million in federal redistribution aid for federal fiscal year 2020, which is any federal highway aid unobligated or unallocated by states that the Federal Highway Administration is required to redistribute to states that are able to use that authority. This redistribution amount was \$30.0 million higher than anticipated at the time of 2019 Act 9. Including the \$733.5 million the Department was allocated through regular federal highway aid formula funding, the Department was allocated a total of \$997.1 million in federal highway aid in 2020-21, which is \$209.9 million, or 26.7% higher than the \$787.2 million in federal formula aid appropriated in 2019 Act 9. All of this federal aid remains available for obligation until September 30, 2024, except redistribution aid was required to be obligated no later than September 28, 2020.

COMBINED PLAN

The Department proposes to address the projected \$172.0 million deficit in the transportation fund at the end of 2020-21 by lapsing \$163.2 million from the continuing balances of several state highway program, local assistance, and air and rail program continuing appropriations, and using its existing authority to lapse \$8.8 million from various annual operating appropriations. In addition, the plan would implement a swap between SEG and federal funding within the local bridge improvement assistance program to make available \$25.0 million SEG to re-allocate to the local roads improvement program, for which projects are generally not eligible for federal funding. Under the Department's plan, the transportation fund would be projected to end 2020-21 with a balance of \$0.

The below table displays the 2020-21 transportation fund condition under the Department's proposed deficit plan.

TABLE 2

**2020-21 Deficit Plan Fund Condition
(in Millions)**

	<u>2020-21</u>
Unappropriated Balance, July 1	-\$27.1
Revenues	
Estimated Net Revenues	\$1,935.1
Continuing Appropriation Balances	
Lapse to Fund Balance - Deficit Plan	<u>163.2</u>
Total Available	\$2,071.2
Expenditures	
Current Law Appropriations and Reserves	\$2,080.0
Local Roads Improvement Program	25.0
Local Bridge Improvement Assistance	-25.0
Annual Operating Appropriation Lapses	<u>-8.8</u>
Estimated Expenditures	\$2,071.2
Unappropriated Balance, June 30	\$0.0

The Department indicates that annual operating lapses were targeted from all operating appropriations, but reductions were primarily achieved through holding vacancies, utilizing telework to reduce expenses, and delaying purchases or other activities, such as delaying the State Patrol recruit class and purchases of information technology equipment. The Department notes that these reductions are not sustainable without significant programmatic impacts.

Under the federal portion of its plan, the Department requests the appropriation of the additional \$209.9 million in federal aid to increase the expenditure authority for corresponding federal appropriations to replace the amounts lapsed from program's continuing appropriation balances proposed under its deficit reduction plan. Under the Department's plan, many appropriations would experience no net change in funding. Two programs, the state highway rehabilitation program and the local roads improvement program, will receive a net increase in funding of \$25.7 million and \$25.0 million, respectively. Projects in the local bridge improvement assistance program are typically eligible for federal funding while projects in the local roads improvement program are not typically eligible for federal funding. In order to increase funding for the local roads improvement program, the plan would reduce SEG funding by \$25.0 million in the local bridge improvement assistance program segregated appropriation, and provide an equal amount to the corresponding federal appropriation for that program. Reducing the local bridge improvement assistance program segregated appropriation and replacing that funding with federal aid would make available \$25.0 million in segregated revenue to re-allocate to the local roads improvement program under the plan.

Four air and rail appropriations will each experience a net impact of \$1.0 million reductions. The Department indicates that reductions to air and rail appropriations would not have an impact on any currently planned projects, although could impact future projects as these funds would have continued into future fiscal years.

The Department's joint deficit elimination plan and additional federal aid plan is as follows.

TABLE 3

Department of Transportation Deficit and Federal Aid Plan

<u>Continuing Appropriations</u>	<u>Deficit Plan</u>	<u>Federal Aid Increases</u>	<u>Net Change</u>
Highways			
State Highway Rehabilitation	-\$134,000,000	\$159,693,300	\$25,693,300
Major Highway Development	-5,000,000	5,000,000	0
Routine Maintenance Activities	-14,250,000	14,250,000	0
Highway Systems Maintenance and Operations	-6,000,000	6,000,000	0
Local Assistance			
Local Roads Improvement Program	25,000,000	0	25,000,000
Local Bridge Improvement Assistance	-25,000,000	25,000,000	0
Air and Rail			
Aeronautics Assistance	-1,000,000	0	-1,000,000
Freight Rail Assistance	-1,000,000	0	-1,000,000
Rail Passenger Service	-1,000,000	0	-1,000,000
Rail Service Assistance	-1,000,000	0	-1,000,000
Total Continuing Appropriations	-\$163,250,000	\$209,943,300	\$46,693,300

Intermodal Grants. The 2019-21 biennial budget authorized \$1.5 million to be awarded as part of an intermodal facilities grant program. Awards were to be made for intermodal freight facilities that were determined to have a public purpose, and could be used for planning, design, feasibility analysis, construction, or any other purpose. Funding was intended to be made from the freight rail infrastructure improvement program revolving loan fund balance in the 2019-21 biennium, notwithstanding the statutory requirements of that program, but was provided to a separate appropriation. The Department indicates that the Governor's 2021-23 budget request provides the funding to the appropriate appropriation, but would require the two projects to be put on hold until those changes are enacted. In order to not impact the two projects for which funds were awarded, the Department requests a transfer of \$314,000 from the freight rail assistance loan repayments appropriation under s. 20.395(2)(bw), Wis. Stats., to the freight rail infrastructure improvements appropriation under s. 20.395(2)(bu), Wis. Stats.

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