



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #715

Transportation Fund Condition Statement and Transportation Fund Debt Service Reestimate (DOT -- Transportation Finance)

Terminal Tax Distribution (Miscellaneous Appropriations)

[LFB 2005-07 Budget Summary: Page 465, #1; Page 472, #9; and Page 339, #6]

At the time the Legislative Fiscal Bureau's 2005-07 Budget Summary was prepared, the estimated biennium-opening balance in the transportation fund was estimated at \$0 and the estimated closing balance was estimated at \$540,200. Since that time, DOT has reestimated revenues and this office has reviewed those reestimates. In addition, the Committee has taken action on portions of the Department's budget, resulting in a reduction in SEG appropriations of \$1.4 million. The modified revenue and expenditure figures are displayed in the following fund condition statement. In addition to the revenue reestimates and the changes associated with the Committee's earlier actions, the table reflects the effect of increases in estimated terminal tax payments (\$90,900) and conservation fund transfers (\$42,900), adjustments that are described in more detail later in this paper.

	<u>2005-06</u>	<u>2006-07</u>
Unappropriated Balance, July 1	\$0	-\$6,114,600
Revenues		
Motor Fuel Tax	\$993,992,600	\$1,032,788,500
Vehicle Registration Fees	475,320,800	509,426,800
Less Revenue Bond Debt Service	-148,710,000	-161,222,300
Driver's License Fees	30,548,200	30,853,600
Miscellaneous Motor Vehicle Fees	23,445,300	24,162,600
Aeronautical Fees and Taxes	10,873,700	11,062,800
Railroad Property Taxes	15,600,500	16,182,300
Motor Carrier Fees	3,000,000	3,000,000
Investment Earnings	6,186,300	6,771,800
Miscellaneous Departmental Revenues	<u>21,491,600</u>	<u>21,816,000</u>
Total Annual Revenues	\$1,431,749,000	\$1,494,842,100
 Total Available	 \$1,431,749,000	 \$1,488,727,500
Appropriations, Reserves, and Fund Transfers		
DOT Appropriations	\$1,069,147,400	\$1,334,989,700
Other Agency Appropriations	114,238,500	125,600,500
Less Estimated Lapses	-1,000,000	-1,000,000
Transfer to General Fund	250,000,000	18,058,100
Compensation and Other Reserves	<u>5,477,700</u>	<u>9,898,800</u>
Net Appropriations, Reserves, and Transfers	\$1,437,863,600	\$1,487,547,100
 Unappropriated Balance, June 30	 -\$6,114,600	 \$1,180,400

Opening Balance

The current projected opening balance is estimated at \$0, which is the same as the estimate reflected in the fund condition statement for the Governor's bill. Although motor fuel tax revenues in 2004-05 are expected to be lower than previously expected, reduced revenue bond debt service offsets over half of the decline and the Department indicates that measures to generate short-term operational savings are expected to offset the remainder.

Motor Vehicle Fuel Tax Revenues

Over the 2005-07 biennium, motor vehicle fuel tax revenues are estimated to be \$19.7 million lower than the amounts originally included in the bill. The lower estimates are due to lower fuel consumption projections in 2004-05 and in the 2005-07 biennium. The lower consumption estimates are partially offset by higher projected fuel tax rates in the biennium relative to earlier estimates. The following table indicates the projected consumption of taxable gallons of motor fuel compared with DOT's original estimates.

**Taxable Gallons of Motor Fuel
(Gallons in Millions)**

<u>Fiscal Year</u>	<u>Original Estimate</u>	<u>Revised Estimate</u>	<u>Difference</u>	<u>Percent Change</u>
2004-05	3,333.2	3,270.9	-62.3	-1.9%
2005-06	3,362.5	3,302.9	-59.6	-1.8
2006-07	3,401.6	3,348.5	-53.1	-1.6

For the three-year period, fuel consumption is estimated to be 175 million gallons lower than earlier estimates. The reductions are due to actual and forecasted increases in fuel prices and forecasts for lower disposable income. Overall fuel consumption is projected to decrease by 0.1% in 2004-05 compared to 2003-04, and then increase by 1.0% in 2005-06 and 1.4% in 2006-07.

As mentioned earlier, motor fuel tax revenue reductions associated with consumption are partially offset by higher than projected increases in the fuel tax rates in the 2005-07 biennium. When the bill was submitted, the motor fuel tax rate was 29.1 cents per gallon. As projected, the fuel tax rate was increased to 29.9 cents per gallon on April 1, 2005. However, reestimated fuel tax rates are projected to be higher each year of the biennium than the rates originally estimated, based on more current inflation projections.

Changes in Estimated Fuel Tax Rates

<u>Tax Rate as of April 1</u>	<u>Original Estimate</u>	<u>Revised Estimate</u>	<u>Difference</u>
2005	29.9¢	29.9¢ (Actual)	0.0¢
2006	30.4	30.7	0.3
2007	30.8	31.3	0.5

The fuel tax rate is indexed, on April 1 of each year, by the rate of inflation in the previous calendar year. When the 2005-07 biennial budget bill was submitted, the original tax rate estimates shown in the above table were based on inflation forecasts from August, 2004. Since then, forecasted inflation rates for 2005 and 2006 have increased. These increased inflation projections result in higher estimated fuel tax rates in the biennium.

Vehicle Registration-Related Revenue

Gross vehicle registration revenue is projected to be lower than the estimate reflected in the Governor's bill by \$3.8 million annually, an estimate that reflects slightly slower growth in

the number of automobiles and trucks that will be registered, as compared to the earlier estimate. Lower forecasts for disposable income account for most of the downward adjustment.

Revenue Bond Debt Service

Although gross registration revenues would decline under new estimates, total registration-related revenues, net of debt service payments, would be higher than the earlier estimates, due to decreases in projected revenue bond debt service. The savings are the result of both a February refinancing issue (not reflected in the Governor's bill) and a reassessment of the timing of bond issuance in the biennium. Total debt service savings, relative to the bill, are estimated at \$11.0 million in 2005-06 and \$11.8 million in 2006-07.

Other Revenues

The current estimates indicate changes in three other revenue categories from the amounts reflected in the Governor's bill.

Aeronautical taxes and fees are projected to be lower by \$0.8 million over the biennium, primarily due to lower estimates of the total value of property subject to the ad valorem tax on commercial airline property. Actual assessed values were lower in calendar year 2004 than in the previous year, although these values are projected to increase slightly over the next three years.

Revenue from the ad valorem tax on railroad property is projected to be higher than the amounts reflected in the bill by \$4.2 million over the biennium. Railroad property increased in value by 23.1% in 2004 relative to the previous year, reflecting strong growth among the largest, long-haul railroads. Growth in railroad property values is expected to continue, although at a slower rate over the next three years.

Transportation fund investment earnings are projected to decline slightly in 2005-06 and increase in 2006-07, relative to the earlier estimates, reflecting updated projections of interest rates and cash balances. Over the biennium, earnings are projected to be higher by \$0.4 million.

Appropriations, Reserves, and Transfers

The Committee has previously taken action on portions of DOT's budget and on a reestimate of revenues transferred to the conservation fund, reducing total appropriations by \$1.4 million over the biennium, relative to the bill. Of this amount, \$765,400 was a reduction of funding for additional trooper positions for the State Patrol. The bill would have provided 20 additional positions, while the Committee adopted an alternative that would provide 10 additional positions. The remaining \$676,200 reflects a reestimate of revenues deposited in the conservation fund under the motorboat, snowmobile, and all-terrain vehicle formulas. However, the adjustment for the motorboat formula was based on an estimated motor fuel tax rate of 30.6 cents per gallon on April 1, 2006. As noted earlier, current inflation projections indicate that the rate will be 30.7 cents per gallon on that date. Making this adjustment increases the transfer to

the conservation fund by \$42,900 in 2006-07. A modification to make the change is included at the end of this paper.

Terminal Tax Reestimate

Under current law, taxes paid by any railroad company derived from, or apportionable to, repair facilities, docks, ore yards, piers, wharves, grain elevators, and other terminal facilities are distributed annually from the transportation fund to towns, villages, and cities in which these facilities are located. The amounts are calculated and certified by the Department of Revenue and payments are made from a transportation fund appropriation, since taxes on these facilities and on other railroad property are deposited in the fund. In part due to an increase in total railroad property value apportionable to Wisconsin, terminal tax payments are expected to increase, relative to the estimates included in the bill. Total payments are projected to be \$1,327,400 SEG in 2005-06 and \$1,378,100 SEG in 2006-07, an increase of \$50,900 SEG in 2005-06 and \$40,000 SEG in 2006-07. A modification to make this change is included at the end of this paper.

Summary

The biennium-ending balance is currently projected to be \$1,180,400, which is an increase of \$640,200, relative to the estimated balance under the Governor's bill. The primary changes are estimated decreases in motor vehicle fuel tax and vehicle registration fee collections, which are offset by reductions in debt service and increases in railroad ad valorem tax collections.

MODIFICATIONS

Terminal Tax Distribution

Increase funding by \$50,900 SEG in 2005-06 and \$40,000 SEG in 2006-07 to reflect a reestimate of terminal tax payments at \$1,327,400 SEG in 2005-06 and \$1,378,100 SEG in 2006-07.

<u>Modification</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	\$90,900

Conservation Fund Transfer

Increase funding for the transfer under the motor boat fuel tax transfer by \$42,900 SEG in 2006-07, relative to the Committee's April 26 reestimate, to reflect an updated estimate of the motor fuel tax rate on April 1, 2006.

<u>Modification</u>	<u>SEG</u>
2005-07 FUNDING (Change to April 26 Modification)	\$42,900

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