



## Legislative Fiscal Bureau

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May 31, 2007

Joint Committee on Finance

Paper #765

### **Transportation Fund Appropriation for Supplementing General Fund Debt Service Payments (DOT -- Transportation Finance)**

### **Convert GPR Appropriation for Nonpoint Pollution Account to a Transportation Fund Appropriation (Miscellaneous Appropriations)**

### **Conversion of Appropriations from the General Fund to the Transportation Fund (Various Agencies)**

#### *Bill Agency*

[LFB 2007-09 Budget Summary: Page 532, #8, Page 533, #9 and Page 388, #2]

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#### **CURRENT LAW**

Transportation fund revenues are generated from various transportation-related taxes and fees. Over 90% of transportation fund revenues are from the combination of motor fuel taxes and vehicle registration and titling fees, while driver's license fees, railroad and aeronautical taxes and fees, and other miscellaneous taxes and fees make up the remainder. With a few exceptions, transportation fund revenues are spent on programs within the Department of Transportation. The following programs are currently the only expenditures of transportation fund revenues in other agencies (shown with base funding): (a) transfers to the conservation fund under the motor fuel tax usage formulas for motorboats (\$13,163,400), snowmobiles (\$4,738,200), and all-terrain vehicles (\$1,734,300); (b) an appropriation for tourism marketing in the Department of Tourism (\$2,200,000); (c) appropriations in the Department of Revenue for the administration of the motor fuel tax (\$1,420,000), railroad and airline ad valorem taxes (\$211,400), and the auto rental fee (\$36,000); and (d) an appropriation for the distribution of ad

valorem taxes collected on railroad terminal and repair facilities to the local governments where such property is located (\$1,378,100).

The supplemental title fee is a \$7.50 charge collected on most vehicle title transactions. Currently, the revenue from this fee, estimated at \$11,089,500 in 2006-07, is deposited in the transportation fund. Each fiscal year, an amount equal to the revenue generated by the supplemental title fee in the prior year is appropriated from the general fund for deposit in the nonpoint pollution account of the environmental fund, and is the sole source of funding (beside interest earnings) in that account.

A total of \$815,480,400 in general obligation bonds were authorized in the 2003-05 and 2005-07 biennia for the state highway programs to partially replace transportation fund revenues that were transferred to the general fund. Debt service on these bonds is paid from the general fund (although a total of \$43,856,500 was paid from the transportation fund in the 2003-05 biennium). Debt service payments on these bonds in the base year are estimated at \$68,659,900.

## **GOVERNOR**

### *Appropriation Conversion*

Provide \$33,913,500 SEG and 0.75 SEG position annually and delete an equal amount of GPR funding and 0.75 GPR position annually to reflect the conversion of 16 GPR appropriations in various non-DOT agencies to SEG appropriations, funded from the transportation fund. Provide \$100,000 SEG in 2008-09 in a new, transportation fund appropriation in the Department of Public Instruction (DPI) for driver education for eligible pupils. Specify that these appropriations shall be from the transportation fund notwithstanding a current law provision that restricts the use of transportation fund revenues to a list of statutorily-enumerated transportation programs and functions. The following table shows the converted appropriations and the new DPI appropriation, including the amounts appropriated in each.

<u>Appropriation</u>	<u>2007-08</u>	<u>2008-09</u>	<u>Biennial Total</u>
Emergency Medical Services; Aids (DHFS)	\$2,200,000	\$2,200,000	\$4,400,000
Regional Emergency Response Teams (DMA)	1,400,000	1,400,000	2,800,000
Emergency Response Equipment (DMA)	468,000	468,000	936,000
Emergency Response Training (DMA)	64,900	64,900	129,800
Emergency Response Supplement (DMA)	0	0	0
Civil Air Patrol Aids (DMA)	19,000	19,000	38,000
Car Kill Deer (DNR)	514,600	514,600	1,029,200
State Park, Forest, and Riverway Roads (DNR)	321,400	321,400	642,800
Air Mgmt.; Motor Veh. Emission Inspection (DNR)	64,500	64,500	129,000
Aid for Pupil Transportation (DPI)	27,292,500	27,292,500	54,585,000
Aid for Transportation; Youth Options (DPI)	20,000	20,000	40,000
Aid for Transportation; Open Enrollment (DPI)	500,000	500,000	1,000,000
Driver Education; Assist. to Eligible Pupils (DPI)	0	100,000	100,000
Driver Education; Local Assistance (WTCS)	307,500	307,500	615,000
Chauffeur Training Grants (WTCS)	191,000	191,000	382,000
EMT Basic Training (WTCS)	0	0	0
Employment Transit Aids (DWD)	<u>550,100</u>	<u>550,100</u>	<u>1,100,200</u>
Total	\$33,913,500	\$34,013,500	\$67,927,000

#### *Supplemental Title Fee Transfer to the Environmental Fund*

Reduce funding in a general fund appropriation for making an annual transfer to the environmental fund (for the nonpoint pollution account) by \$11,180,000 GPR annually, which eliminates all funding in that appropriation. This decrease reflects the sum of the following: (a) decreases of \$507,000 GPR in 2007-08 and \$453,600 GPR in 2008-09 to reflect a reestimate of base transportation fund revenues generated by the supplemental vehicle title fee, which is the basis for determining the amount of general fund revenue that is appropriated for the transfer; and (b) decreases of \$10,673,000 GPR in 2007-08 and \$10,726,400 GPR in 2008-09 to reflect the replacement of the GPR appropriation for making the environmental fund transfer with a transportation fund appropriation. Provide \$12,773,000 SEG in 2007-08 and \$13,626,400 SEG in 2008-09 in a new, transportation fund appropriation for making the annual transfer to the environmental fund. These amounts reflect the sum of the following: (a) funding of \$10,673,000 in 2007-08 and \$10,726,400 in 2008-09 to replace the estimated amount of general fund revenue that would otherwise be appropriated for making the transfer with transportation fund revenue; and (b) increases of \$2,100,000 in 2007-08 and \$2,900,000 in 2008-09 to reflect additional revenue that would be appropriated due to an increase in the supplemental title fee, from \$7.50 to \$9.50.

Prohibit any moneys from being transferred to the environmental fund from the GPR appropriation after the effective date of the bill. Specify that if the effective date is after October 1, 2007 (the date on which the transfer is normally made), the Secretary of the Department of Administration shall make a transfer in 2007-08 from the transportation fund to the general fund equal to the amount that had been transferred from the GPR appropriation to the environmental

fund in that fiscal year. Specify that the new appropriation for making a transfer to the environmental fund shall be made from the transportation fund notwithstanding a current law provision that restricts the use of transportation fund revenues to a list of statutorily-enumerated transportation programs and functions.

*Supplemental Debt Service Appropriation*

Provide \$26,600,000 SEG in 2007-08 and \$43,300,000 SEG in 2008-09 in a new, annual appropriation from the transportation fund for paying a portion of the debt service on general obligation bonds issued in the 2003-05 and 2005-07 biennia for the state highway programs. Modify the existing GPR appropriation for paying this debt service to specify that the amount of general fund revenue appropriated is a sum sufficient to pay principal and interest costs incurred, less any amount appropriated in the new, transportation fund appropriation. Reduce funding in the GPR debt service appropriation by \$26,600,000 in 2007-08 and \$43,300,000 in 2008-09 to reflect the replacement of general fund revenues with transportation fund revenues.

**DISCUSSION POINTS**

1. The bill includes three initiatives that would use transportation fund revenues for general fund purposes: (a) a conversion of 16 GPR appropriations in non-DOT agencies to SEG (transportation fund) appropriations and the creation of an additional SEG appropriation (deleted in earlier action by the Committee) for a non-DOT program; (b) the conversion of an appropriation, also from GPR to SEG, for making a transfer to the environmental fund; and (c) the creation of a SEG appropriation to pay a portion of the debt service on general fund-supported bonds. The following table shows the amounts associated with these three provisions, as affected by the Committee's earlier actions. The points following the table discuss each item separately.

<u>Item</u>	<u>2007-08</u>	<u>2008-09</u>	<u>Biennial Total</u>
Appropriation Conversion*	\$33,913,500	\$33,913,500	\$67,827,000
Supplemental Title Fee Transfer*	10,290,000	12,763,000	23,053,000
Debt Service Supplement	<u>26,600,000</u>	<u>43,300,000</u>	<u>69,900,000</u>
Total	\$70,803,500	\$89,976,500	\$160,780,000

\*Reflects changes based on the Committee's earlier actions.

**Conversion of General Fund Appropriations to Transportation Fund Appropriations**

2. With the exception of the Department of Public Instruction's (DPI) pupil transportation assistance programs, the programs that would be affected by the appropriation conversions under the bill were funded from the transportation fund prior to being converted to general fund appropriations in the 1997-99 budget act. Consequently, although the bill would effectively reduce the amount of transportation fund revenues available for DOT programs, for some of the affected programs (excluding the DPI appropriations) the bill would restore their former funding arrangement.

3. Since DPI's pupil transportation assistance programs were not funded from the transportation fund prior to the 1997-99 budget, the decision to fund these appropriations (which account for over 80% of the total funding in all of the affected appropriations) on an ongoing basis from the transportation fund would be a departure from prior practice. On two occasions in the past, however, transportation fund revenues were used on a one-time basis to supplement general fund revenues for pupil transportation or similar functions. In 1983-84, \$10.9 million was provided from the transportation fund for pupil transportation and in 1992-93, \$3.8 million was provided for handicapped education transportation.

4. Proponents of the appropriation conversion provisions of the bill may point to their relationship to transportation as a justification. The following list briefly describes each program and provides the justification that is commonly given for using transportation fund revenues.

<b>Programs</b>	<b>Description and Relationship to Transportation</b>
EMS Aids and EMT Basic Training	Provides resources for emergency medical services. Justified on the grounds that traffic accidents result in injuries requiring emergency medical services.
Emergency Response Teams	Provides funding for hazardous materials spills cleanup training and equipment. Justified on the grounds that hazardous materials spills sometimes occur in the transport of such materials. Also, when this appropriation was funded from the transportation fund prior to 1997, the state levied a hazardous materials transportation fee, which was deposited in the transportation fund. However, the fee was declared unconstitutional in 1996, and is no longer collected.
Civil Air Patrol Aids	Provides aid for the general operations of the Civil Air Patrol. Justified on the grounds of its connection to aviation.
Car Kill Deer	Provides funding for the removal of deer killed in collisions with vehicles.
Park, Forest, and Riverway Roads	Provides funding for the maintenance and construction on roads within properties maintained by the Department of Natural Resources.
Vehicle Emission Inspection and Maintenance	Provides funding for the Department of Natural Resources' administrative costs of the vehicle emission inspection and maintenance program.
Aid for Pupil Transportation	Provides funding for school districts for pupil transportation.
Driver Education and Chauffeur Training	Provides aid for driver's education and chauffeur training. The grants are made to technical college districts.
Employment Transit Aids	Provides funding for special transit services to help employees get to work, typically in areas not served by regular transit service.

5. Opinions on whether the conversion of GPR appropriations to SEG appropriations is appropriate may depend, in part, on differing views of the basic purpose of the transportation fund. Some view the transportation fund as primarily a user fee-based financing system for the construction and maintenance of transportation infrastructure and other closely-related programs. Under this view, the use of transportation fund revenues for non-DOT programs that are not directly related to particular user fees would be inappropriate.

6. An alternative view of the transportation fund is that the taxes and fees that are deposited in the fund are not strictly user fees. Instead, under this view, the transportation fund taxes and fees are more similar to general fund taxes, but are levied for the purpose of supporting a wide range of transportation programs, without regard to whether the persons served by the programs pay directly into the fund in proportion to their use or benefits. For instance, although mass transit operating aids may indirectly benefit users of personal automobiles, the primary purpose of such expenditures is to assist local governments in providing an alternative transportation mode, even though transit users do not pay into the transportation fund based on their use of transit. The same concept even applies to the highway and road system since the expenditures do not necessarily match the revenues generated. The cost of the construction of low-volume highways and roads and of certain bridges may exceed the revenues generated by the users of those facilities (through fuel taxes and registration fees), but the construction and maintenance of such facilities is essential for a fully functioning transportation system. Under this concept of the transportation fund, the appropriation conversion under the bill may be appropriate.

7. Some current expenditures from the transportation fund are more consistent with the general transportation system concept, while others fit with the more specific user fee concept. But regardless of which concept is favored, the proposed appropriation conversion provisions in the bill would involve adding additional non-DOT programs to the transportation fund at a time when some are advocating significant funding increases to existing DOT transportation programs. In 2006, the Joint Committee on Transportation Needs and Financing, commonly called the "Road to the Future Committee," recommended annual funding increases for current DOT programs totaling \$698.2 million, but the amounts provided in the bill for these programs would fall short of that amount by \$606.0 million in 2007-08 and \$492.6 million in 2008-09. Consequently, while many feel that available general fund revenues fall short of demand for those revenues, the same could be said of transportation fund revenues.

8. If the appropriation conversion provisions are retained, a technical modification would be required to make the new transportation fund appropriations consistent with provisions related to other non-DOT transportation fund appropriations, such as the DOR appropriations for the administration of transportation fund taxes and fees. Under current law, the DOT Secretary has authority over all transportation fund appropriations, with the exception of those appropriations not in DOT. Those exceptions are included in a list under the statutory section creating the fund. However, the appropriations that would be converted to the transportation fund under the bill would not be added to this list by the bill.

## **Supplemental Title Fee Revenue to the Environmental Fund**

9. The supplemental title fee was created by 1991 Act 309, as the result of recommendations of a Legislative Council special study committee on nonpoint water pollution. The act included several changes to nonpoint pollution programs designed to accelerate implementation of best management practices to control water pollution in priority watersheds. The report prepared by the study committee indicated that the implementation of the supplemental title fee was justified on the grounds that motor vehicles are a significant contributor of certain water pollutants, including zinc, copper, and lead. In addition, the use of road salt in winter further contributes to water pollution.

10. Until 1997-98, revenues generated by the supplemental vehicle title fee were deposited directly in the nonpoint pollution account of the environmental fund. The 1997-99 biennial budget act modified these provisions so that supplemental title fee revenues are now deposited in the transportation fund and a substitute payment, from the general fund, is made to the environmental fund equal to the amount generated by the fee. Consequently, as with the decision to convert several GPR appropriations to transportation fund appropriations, the provision that would make a transfer of supplemental title fee revenue directly from the transportation fund to the environmental fund would reverse a change included in the 1997-99 budget act.

11. A decision to accept the budget provision could be made on the grounds that the bill would restore the original purpose of the supplemental title fee. Alternatively, it could be rejected on the grounds that the transportation fund is currently in no better position to accept the responsibility of this program than the general fund is in a position to retain it.

12. In the 2003-05 biennium, a decision was made to include the supplemental title fee revenues, along with other vehicle title revenues, in the list of revenues that is pledged for the payment of debt service on transportation revenue bonds. Because there are concerns that changes to the composition of pledged revenues may violate the terms of the sale of bonds, the bill would not directly deposit these revenues in the environmental fund, but would instead create a transportation fund appropriation for making the transfer. In this way, these revenues can continue to be pledged for the payment of debt service, but achieve the same effect as if they were deposited directly in the environmental fund. If this provision is retained, however, the bill should be amended to include the transfer appropriation in a list of appropriations made from the transportation fund that are not in the Department of Transportation, as described in Point #8 above.

13. In addition to making a change to the supplemental title fee transfer provision, the bill would also increase the fee by \$2.00, from \$7.50 to \$9.50. The bill reflects the effect of the fee increase in the appropriation for making a transfer to the environmental fund in both years of the biennium. However, since the amount of the transfer (under current law and under the bill) is based on the revenue collected from the supplemental title fee in the prior fiscal year, the effect of the fee increase would not result in an increase to the environmental fund until 2008-09, one year after the fee increase takes effect. The Department of Administration (DOA) indicates that the intent was to have the full amount of supplemental title fee revenues, including the amount attributable to the fee

increase, transferred to the environmental fund in the same year that those revenues would be generated. In an errata submitted after the introduction of the bill, DOA requested that the provision be modified to make a quarterly transfer, within 14 days following the end of the quarter, based on revenues generated in the previous quarter. For the final quarter of each fiscal year, the transfer would be made after the conclusion of the fiscal year, but would be applied to the fiscal year in which the revenues were collected. However, in its action on LFB Paper #586, the Committee did not adopt this recommendation, resulting in a reduction in the transfer appropriation.

### **Supplemental Debt Service Appropriation**

14. In the 2003-05 and 2005-07 biennia, transportation fund revenues were used to help balance the general fund budget, either through a direct transfer to the general fund or by making an appropriation from the transportation fund for programs traditionally funded by the general fund (totaling \$675.0 million in 2003-05 and \$472.0 million in 2005-07). In order to use transportation fund revenues for this purpose, the SEG appropriations for the state highway programs were reduced and a total of \$815.5 million in bonds were issued to partially replace those reductions. In the 2003-05 budget, debt service on those bonds, totaling \$43.9 million, was paid from the transportation fund. Beginning in the 2005-07 biennium, however, the general fund was made responsible for paying the remaining debt service. Debt service payments on these bonds are estimated at \$85,490,700 in 2007-08 and \$90,414,400 in 2008-09.

15. By making a supplemental appropriation of \$26,600,000 in 2007-08 and \$43,300,000 in 2008-09 from the transportation fund to offset the GPR expenditures on this debt service, the bill would impose a cost on the transportation fund for provisions that were intended to assist the general fund. Under the bill, the transportation fund would pay an estimated 31.1% of the total debt service in 2007-08 and 47.9% in 2008-09.

### **Discussion of Transportation Fund Measures Assisting the General Fund**

16. If it is determined that it is necessary to use transportation fund revenues in some way to assist the general fund, but that changes are warranted to either the amount or the form of the assistance, the Committee would have several options. To reduce the amount of transportation fund revenues used for general fund purposes, the Committee could approve only one or two of the three measures discussed in this paper, or, alternatively, reduce the amount in the debt service supplement appropriation.

17. All three measures discussed in this paper would have an ongoing impact past the 2007-09 biennium. That is, if no changes are made in the 2009-11 budget or other subsequent legislation, all three provisions would continue at the same annual level in 2009-11 as in the 2008-09 base year. This is in contrast to the provisions of the 2005-07 biennium, which made a nonrecurring transfer from the transportation fund to the general fund. If it is determined that some use of transportation fund revenues to assist the general fund is warranted or necessary, but that the provisions should not have an ongoing effect, the provisions in the bill could be eliminated in favor of a transfer, similar to the transfer made in the 2005-07 biennium. If the bill were amended to



provide the same amount of transportation fund assistance to the general fund as in the bill, but as a transfer instead of through the three measures discussed in this paper, the transfer would total \$160,780,000.

18. Another alternative would be to make the transfer described in the previous point, but also authorize general fund-supported bonds for the state highway rehabilitation program in an amount equal to the transfer. Under this alternative, the transfer would have no impact on the potential revenue available for DOT programs, but would result in increased general fund debt service. If a total of \$160,780,000 in bonds were authorized (the amount of transportation fund revenues that would be used to assist the general fund under the bill) and were issued in 2007-08, estimated debt service payments would be \$1,500,000 GPR in 2007-08 and \$15,900,000 in 2008-09. This estimate is based on the assumption that the bonds would be issued under similar circumstances as the bonds issued for the state highway rehabilitation program in the 2005-07 biennium. Once fully issued, annual debt service on the bonds would be an estimated \$18.1 million until all 10-year bonds are repaid, at which time annual debt service would drop to \$4.2 million.

**ALTERNATIVES TO BILL**

**A. Appropriation Conversion**

1. Approve the Governor's recommendation to provide \$33,913,500 SEG and 0.75 SEG position annually and delete \$33,913,500 GPR and 0.75 GPR position annually to reflect the conversion of 16 GPR appropriations in various non-DOT agencies to SEG appropriations. Modify the bill to include these transportation fund appropriations in a statutory list of appropriations in non-DOT agencies that are not under the authority of the DOT Secretary.

ALT A1	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
GPR	\$0	0.00	-\$67,827,000	- 0.75
SEG	<u>0</u>	<u>0.00</u>	<u>67,827,000</u>	<u>0.75</u>
Total	\$0	0.00	\$0	0.00

2. Delete provision.

ALT A2	Change to Bill		Change to Base	
	Funding	Positions	Funding	Positions
GPR	\$67,827,000	0.75	\$0	0.00
SEG	<u>- 67,827,000</u>	<u>- 0.75</u>	<u>0</u>	<u>0.00</u>
Total	\$0	0.00	0	0.00

## B. Supplemental Title Fee Transfer

1. Approve the Governor's recommendation, as modified by the Committee's earlier actions, to delete \$11,180,000 GPR annually in the appropriation for making a transfer to the environmental fund equal to the amount of revenue generated by the supplemental title fee, and provide \$10,290,000 SEG in 2007-08 and \$12,763,000 SEG in 2008-09 to reflect the creation of a transportation fund appropriation for that purpose. Modify the provision to include the transportation fund appropriation in a list of appropriations in non-DOT agencies that are not under the authority of the DOT Secretary.

<b>ALT B1</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$0	- \$22,360,000
SEG	<u>0</u>	<u>23,053,000</u>
Total	\$0	\$693,000

2. Delete provision (the remaining GPR change to base funding consists of the net effect of decreases of \$890,000 in 2007-08 and \$568,000 in 2008-09 to reflect reestimated transfers under current law and an increase of \$2,151,000 in 2008-09 to reflect the \$2 increase in the supplemental vehicle title fee).

<b>ALT B2</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$23,053,000	\$693,000
SEG	<u>- 23,053,000</u>	<u>0</u>
Total	\$0	\$693,000

## C. Supplemental Debt Service Appropriation

1. Approve the Governor's recommendation to provide \$26,600,000 SEG in 2007-08 and \$43,300,000 SEG in 2008-09 in a new, transportation fund appropriation for paying a portion of the debt service on GPR-supported general obligation bonds, and reduce funding in the GPR debt service appropriation for making those payments by an equal amount.

<b>ALT C1</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$0	- \$69,900,000
SEG	<u>0</u>	<u>69,900,000</u>
Total	\$0	\$0

2. Delete provision.

ALT C2	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
GPR		\$69,900,000		\$0
SEG		<u>-69,900,000</u>		<u>0</u>
Total		\$0		\$0

#### D. Transfers and Replacement Bonds

The Committee could adopt one or both of the following alternatives to make a nonrecurring payment to the general fund and, if desired, replace the transferred funds with general fund-supported bonds. The amounts shown in the alternatives would equal the full amount of transportation fund assistance to the general fund included in the bill, although either alternative could be changed if it is decided that different amounts are needed. If bonding is authorized for the state highway rehabilitation program, the Committee could decide to modify the SEG appropriation for that program to fully or partially offset the bonds.

1. Transfer \$70,803,500 in 2007-08 and \$89,976,500 in 2008-09 from the transportation fund to the general fund.

ALT D1	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
SEG-Transfer		\$160,780,000		\$160,780,000
GPR	\$160,780,000		\$160,780,000	

2. Authorize \$160,780,000 in general fund-supported bonds for the state highway rehabilitation program. Provide \$1,500,000 GPR in 2007-08 and \$15,900,000 GPR in 2008-09 to reflect estimated debt service payments on these bonds.

ALT D2	Change to Bill		Change to Base	
	Revenue	Funding	Revenue	Funding
BR		\$160,780,000		\$160,780,000
GPR		<u>17,400,000</u>		<u>17,400,000</u>
Total		\$178,180,000		\$178,180,000

3. Maintain current law.

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