



Wisconsin Transportation Finance, 2011



wis tax

Wisconsin Taxpayers Alliance 9.29.11

Transportation Development Association (TDA)

Overview

About WISTAX

Revenues: State & All-Funds

Spending: Where does the \$ go?

State budget review

■ Looking ahead



WISTAX

Established in 1932

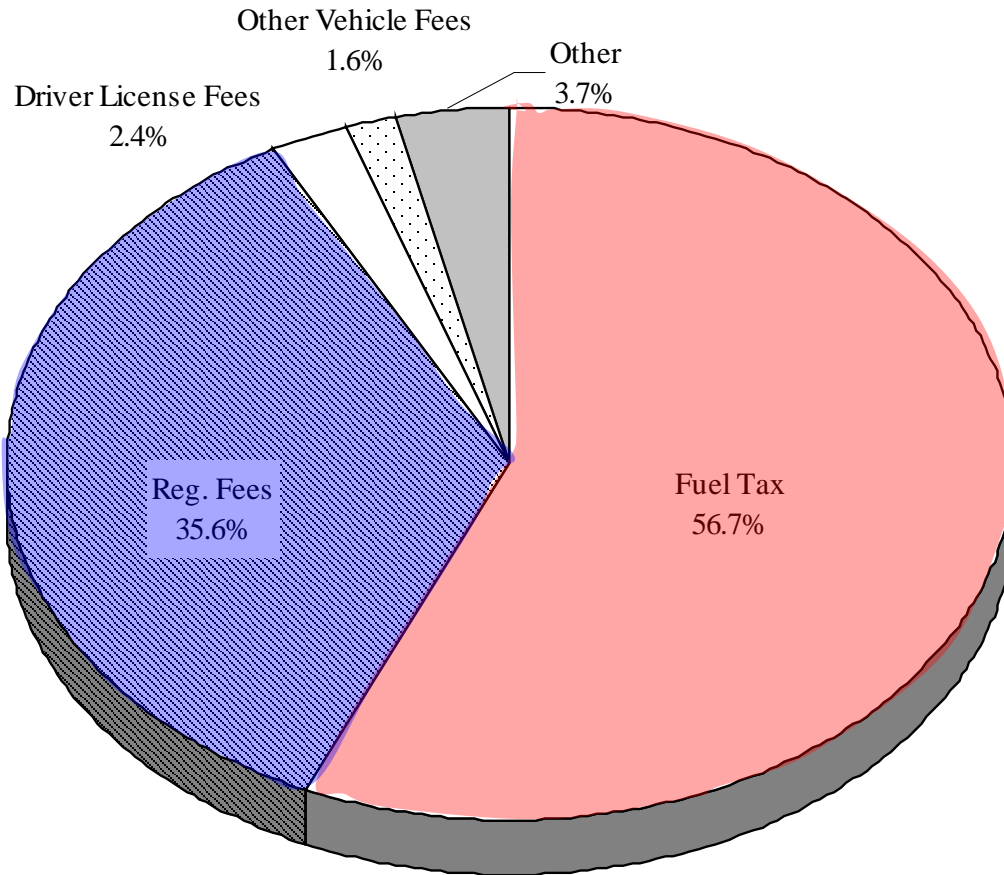
Nonpartisan, nonprofit, independently funded

Wisconsin's oldest private government research organization

Dedicated to public policy research and citizen education

- August 2011 Report: “Wisconsin Transportation: 2011 and Beyond”

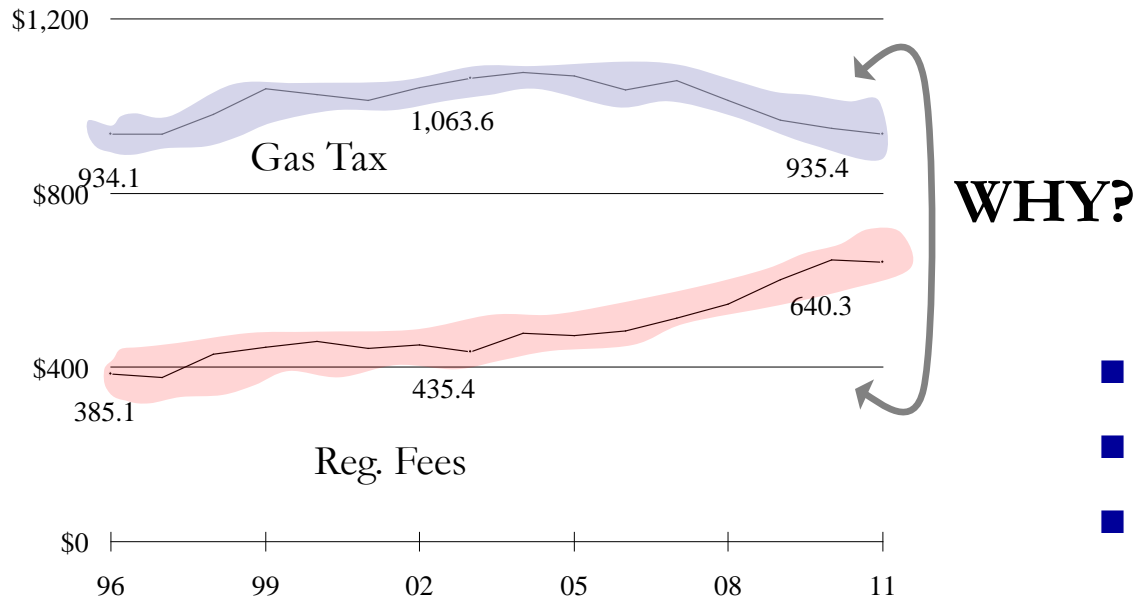
Funding: State \$'s



90%+ of state transportation dollars come from gas tax and reg. fees, but . . .

Funding: State \$'s continued

. . . real gas tax and reg. fee revenues are stagnant.



- Indexing Repealed (2005)
- Less Travel
- More efficient vehicles

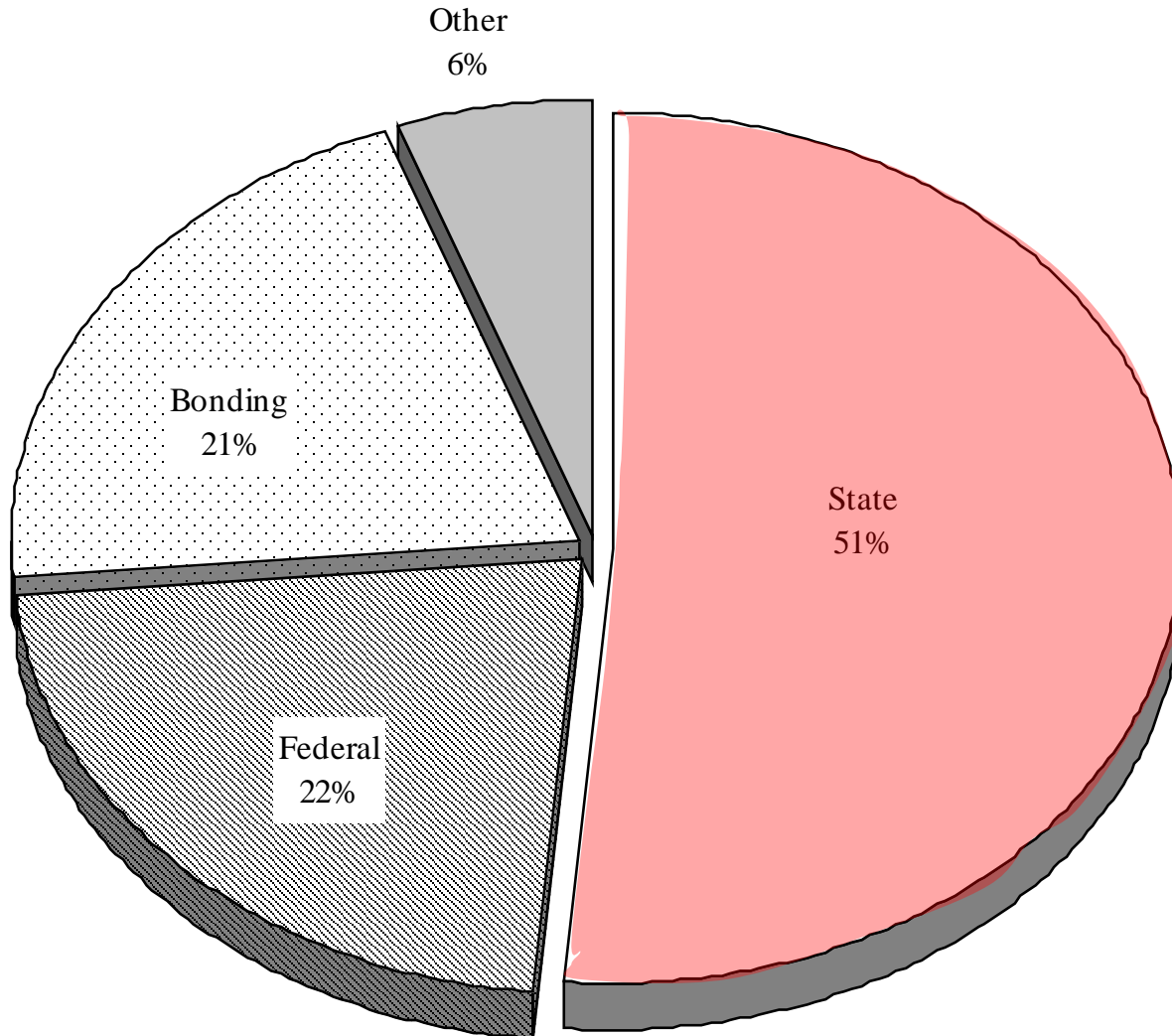
Funding: State \$'s continued

How Do States Fund Highways? % of State Hwy. Rev's, by Source (2009)

	Gas Tax	Rk.	Vehicle Tax/Fees	Rk.	Gas + Vehicle	Rk.	Tolls	Rk.	Gen'l Funds	Rk.	Other	Rk.
Ill.	28.6%	41	29.1%	18	57.7%	35	22.6%	7	18.3%	7	1.4%	49
Iowa	35.8%	32	38.5%	8	74.3%	23	0.0%	50	4.4%	23	21.3%	18
Mich.	43.5%	22	39.6%	7	83.1%	14	1.8%	22	5.0%	22	10.1%	31
Minn.	43.3%	23	31.8%	17	75.1%	20	0.0%	50	0.0%	50	24.9%	14
Wis.	55.5%	10	34.5%	15	90.0%	7	0.0%	50	4.2%	24	5.8%	41
<i>U.S.</i>												
Median	39.1%		24.1%		72.8%		0.1%		3.4%		14.8%	
Avg.	37.7%		27.2%		64.9%		9.5%		9.0%		16.6%	



Funding: All Funds Transp. Budget



State share of total transp. budget declining:

2001 = 60.6%

2011 = 51.4%

Bonding a growing share of budget:

2001 = 5.9%

2011 = 20.8%



Funding: All Funds Transp. Budget

Bonding is Fastest-Growing Revenue

Gross Transp. Rev's (\$ Millions)

FY	State	Federal	Bonding	Other	Total
00	\$1,257.3	\$606.1	\$128.2	\$73.7	\$2,065.2
01	1,299.2	640.8	128.4	72.3	2,140.7
02	1,355.8	687.9	135.2	77.8	2,256.5
03	1,422.3	716.3	139.9	77.1	2,355.6
04	1,459.1	820.7	415.7	87.6	2,783.2
05	1,515.8	760.2	442.2	79.8	2,798.0
06	1,564.5	751.5	633.3	148.8	3,098.0
07	1,622.4	853.0	164.0	185.9	2,825.3
08	1,686.1	848.1	285.7	167.1	2,986.9
09	1,755.6	1,270.3	294.4	173.8	3,494.0
10	1,734.8	1,009.8	635.4	187.8	3,567.8
11	1,797.7	778.0	728.1	195.1	3,498.9
<i>Avg. Chg.</i>	3.3%	2.3%	17.1%	9.3%	4.9%



Funding: Why All the Borrowing?

- Wisconsin has narrow revenue base (gas tax + reg. fees = 90%+ of state rev's.)

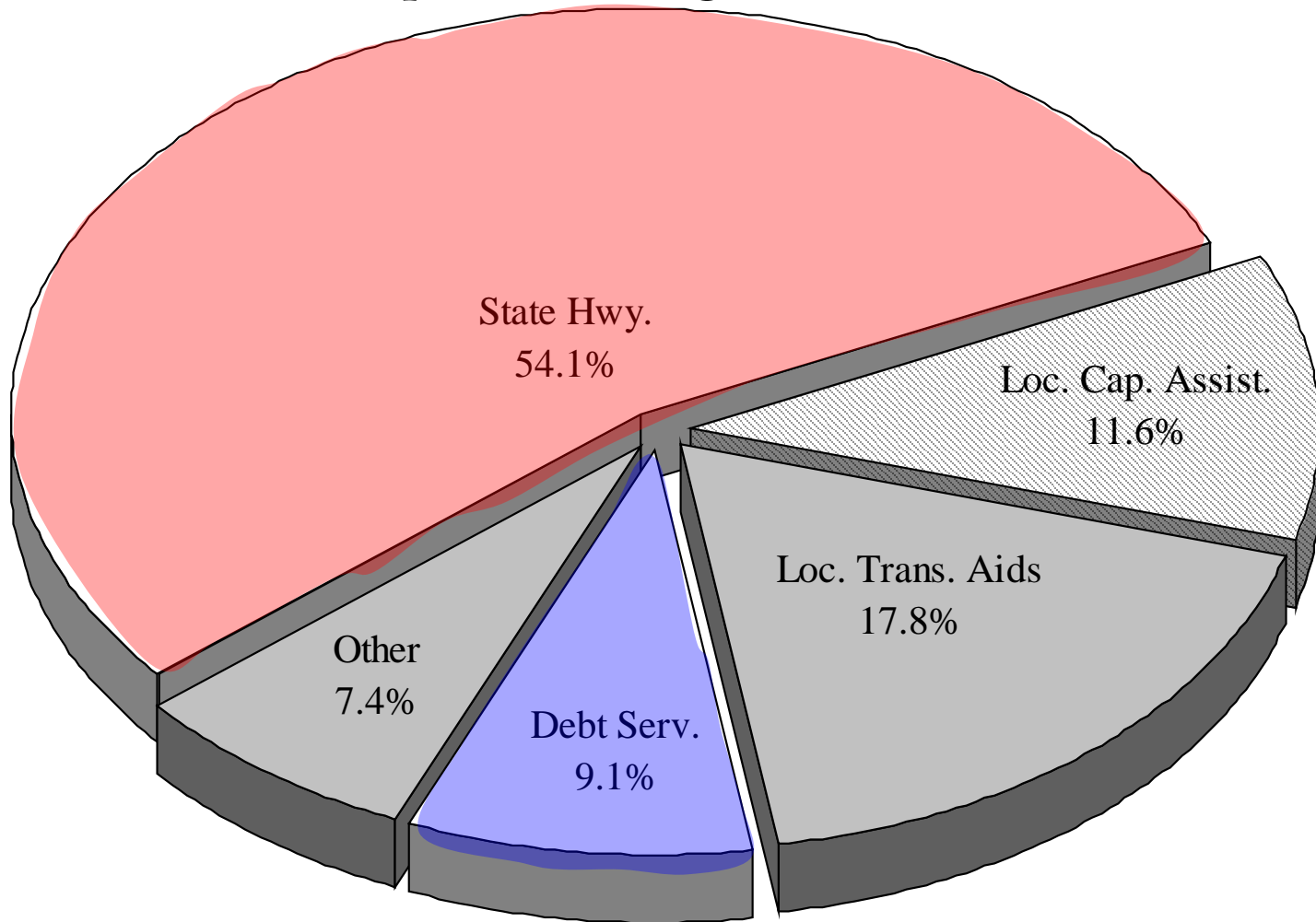
Real (inflation adjusted) gas tax revenues rise 0.01% per year from 1996-2011

Vehicle registration revenues increase only when legislature increases fees

Legislature raids \$1.4 billion from “segregated” transportation fund. Issues general-fund supported borrowing to partially compensate

Spending: Where the \$ Goes

FY11 Transportation Budget, \$3.5 Billion Total



Spending: Where the \$ Goes, continued

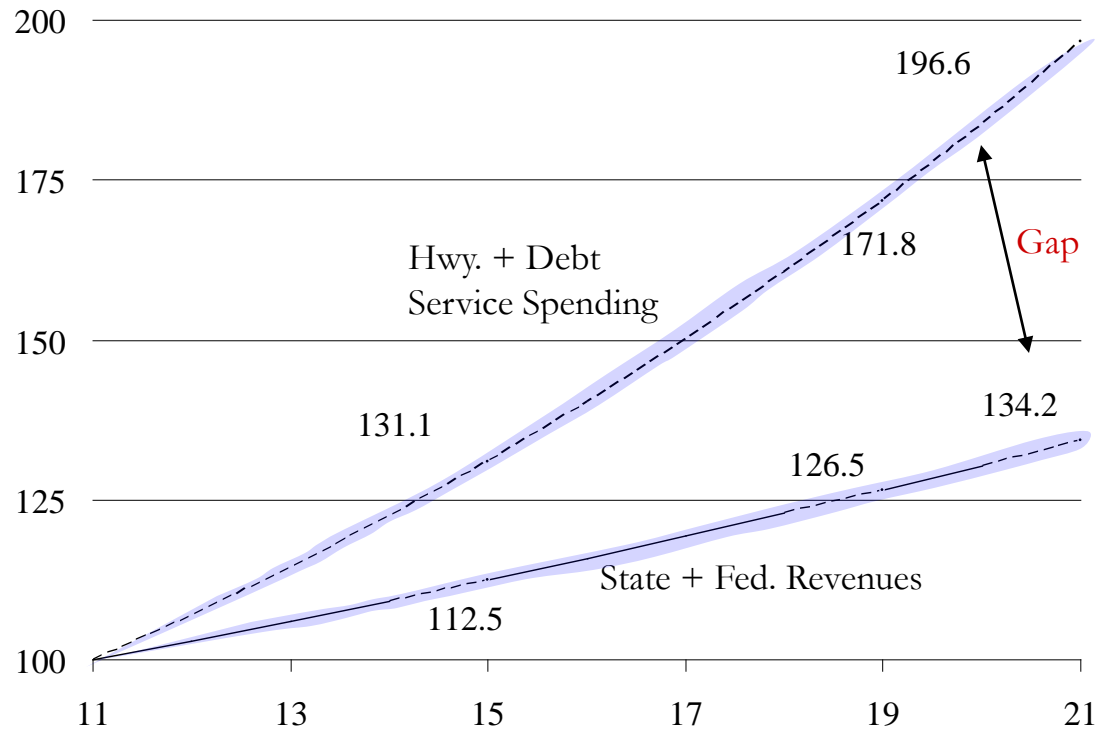
FY	State Hwy.	Local Aids	Debt Service	Other	Total
00	\$947.9	\$816.1	\$90.3	\$210.9	\$2,065.2
01	992.0	821.8	34.5	292.3	2,140.7
02	1,090.3	820.2	93.3	241.2	2,245.0
03	1,162.2	828.9	105.8	246.3	2,343.2
04	1,065.9	894.4	119.7	524.7	2,604.6
05	1,175.6	842.6	166.3	486.8	2,671.3
06	1,414.8	910.5	188.8	245.4	2,759.4
07	1,283.3	955.7	234.8	258.3	2,732.1
08	1,351.7	963.0	243.9	273.1	2,831.7
09	1,587.0	1,052.3	249.5	285.9	3,174.6
10	1,676.8	1,267.6	282.3	255.4	3,482.2
11	1,870.8	1,016.7	313.7	255.8	3,456.9
Avg. Chg.	6.4%	2.0%	12.0%	1.8%	4.8%

Debt service is fastest-growing expenditure in transportation budget, leaving fewer dollars for discretionary use.

Note: \$ in Millions



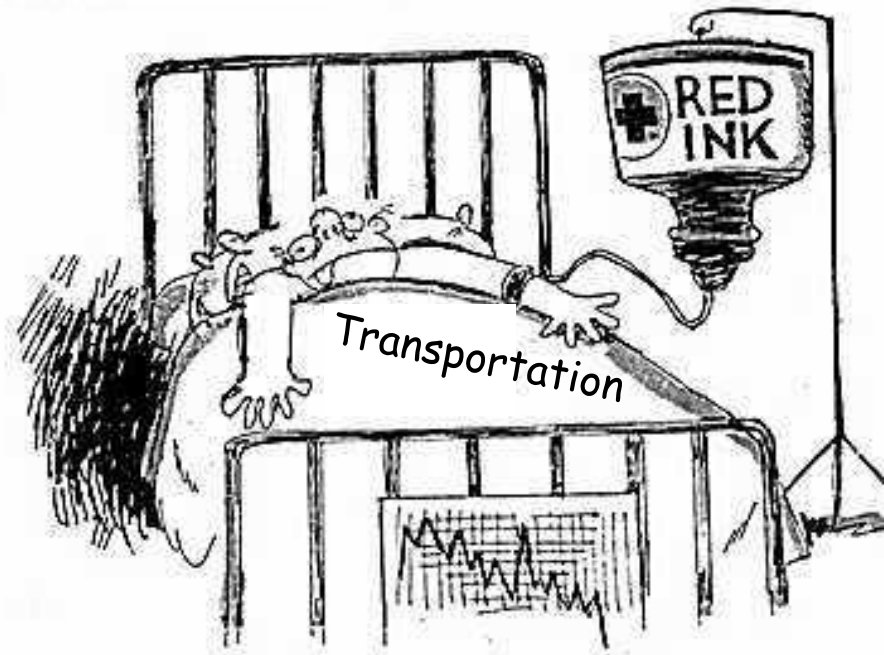
Highway Funding Shortfall?



The funding gap grows if spending and revenue trends of the past decade continue.

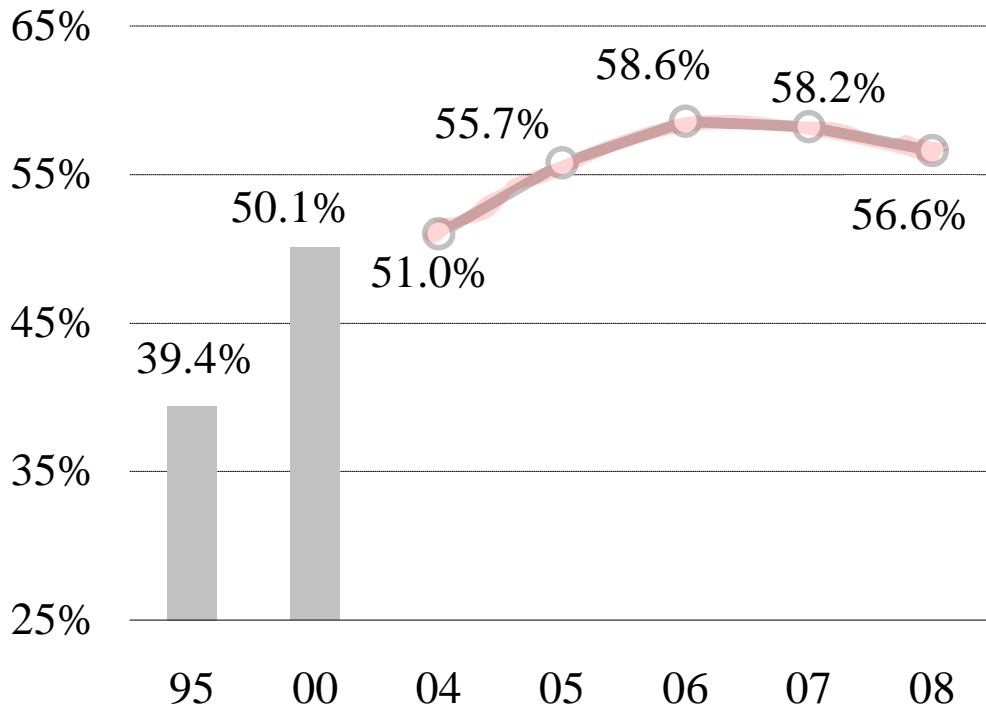
Funding Shortfall . . . continued

- Jt. Leg. Committee on Transportation Needs and Finance (2006): **\$600 million** funding gap between estimated spending needed for highways and estimated revenues.
- Legislative Fiscal Bureau (2009): Funding gap approaching **\$1 billion** annually.
- WPRI (2011): Funding gap **\$1 billion** annually.



Highway Condition

% of Wisconsin Hwy. Miles Rated in Top Two Smoothness Categories



Source: Federal Hwy. Administration

Wisconsin:	56.6%
U.S.:	54.8%
Illinois:	43.1%
Iowa:	47.2%
Michigan:	61.7%
Minnesota:	56.0%

2011-13 State Budget: Help on the way?

■ Use of “other fund revenues” to support transportation programs in the state budget totaled \$335.5 million. They included:

one-time transfer of \$125 million from general fund to transportation fund

authorize \$115.4 million in hwy. rehabilitation bonds

conversion of environmental fee (\$9) to title fee to be deposited in transportation fund.

■ annual transfer of \$19.5 million from petroleum inspection fund to transportation fund

★ ■ require an annual transfer of 0.25% of general fund taxes be made to transportation fund. Cannot be less than \$35.1 million per year.



Where do we go from here?

- Stagnant transportation-related tax and fee revenues, combined with the use of transportation dollars for non-transportation purposes, has led to increased borrowing to fund transportation. However, borrowing at current rates is unsustainable and a drain on the transportation budget.

Possible options?

- increase existing taxes (e.g., index gas tax, apply sales tax to gasoline)
- expand transportation revenue base (e.g., tolling, modern transponder technology)
- reduce spending on new construction and maintenance projects.

There's more . . .

TRUSTED ANALYSIS FROM THE

WISCONSIN TAXPAYERS ALLIANCE

FOCUS

In brief 04.29.2011 • No. 6

One major policy change in the pending state budget that has received little attention would, starting in 2012-13, divert a portion of vehicle-related sales taxes from the general fund to the transportation fund. When fully implemented in 2021-22, an estimated \$360 million would be transferred. The general fund supports some of the state's largest programs (e.g., school aids, Medicaid, shared revenue, and higher education). Supporters call the proposal needed to sustain highway construction; opponents argue it would reduce future state budget flexibility.

Capitol notes

■ *One little-noted aspect of the 2011-13 state budget is that it would produce very little structural imbalance (or "deficit") that would come back to haunt when budgeting for 2013-15 begins.*

According to the Legislative Fiscal Bureau, while that figure exceeded \$1.2 billion for 2011, it will be only \$4 million in 2013. Examples of items that contribute to such an imbalance include transfers from other funds to the general fund, use of one-time monies to pay for permanent programs, accounting tricks, and phased tax cuts.

■ *In case you missed it . . . a side effect of congressional action taken on the federal estate tax at the end of 2010 is that Wisconsin will not have an estate tax for 2011 and 2012.*

Little-noticed proposal would earmark sales tax

Public hearings over, the legislature's Joint Committee on Finance is now into a concentrated month of work on the 2011-13 state budget bill (AB40/SB27). Senate and assembly leaders hope to finish work on the bill before state government begins a new fiscal year on July 1.

In recent decades, the budget has evolved from a biennial spending plan to a bill of a thousand pages or more, a catch-all state leaders use to advance significant policy change without having to introduce separate bills. Governor Scott Walker's (R) pending budget is no exception.

The Walker bill, for example, would significantly affect UW governance, municipal recycling, state land purchases, and private school choice, not to mention repeal of a partial general fund spending limit. Another major, if not unprecedented, proposal would move tax and transportation policy in a new direction.

A "new" sales tax

Historically, state general purpose revenues (GPR)—chiefly income, sales, business, and excise taxes—have been placed in the general fund where they can be spent on any GPR program. Gas taxes and other driver- and vehicle-related fees, on the other hand, are considered highway user fees—Wisconsin's alternative to tolls—and deposited in the transportation fund.

■ **"Earmarking" the tax.** In a break with the past, the governor proposes to earmark sales taxes generated by motor vehicles and related items and move them from the general fund to the restricted-use transportation fund. This would provide a new revenue source for a fund that had been repeatedly tapped to balance the general fund budget. But it would also

reduce GPR tax collections, potentially impacting the state's largest programs: state aid to local governments and schools, medical assistance for the poor, corrections, and higher education.

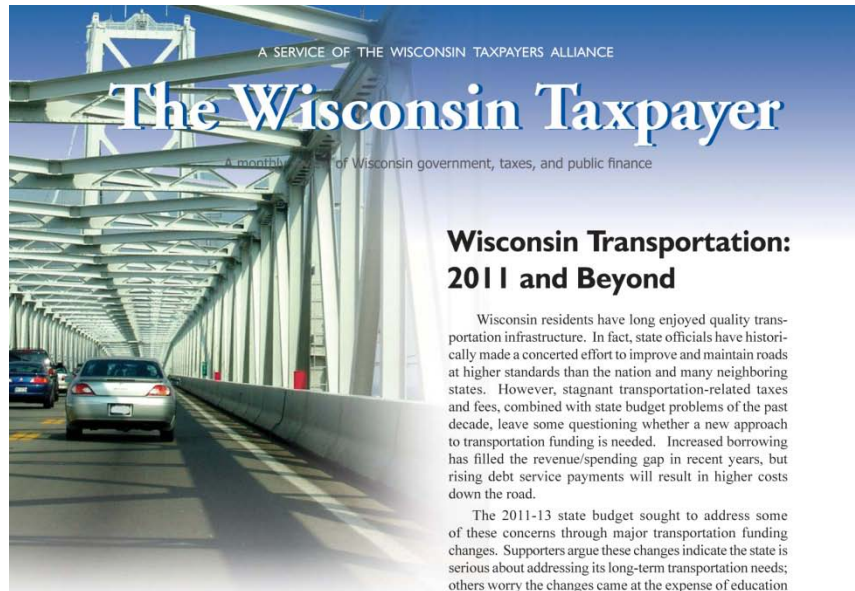
■ **Money mechanics.** Up to \$35.1 million (m) would be transferred in 2012-13, but the amount would grow, ultimately reaching half of vehicle-related sales taxes by 2021-22. Had this provision been fully in place in 2012-13, the administration estimates it would have boosted transportation fund revenues by \$292m, or 18.8%, from \$1.56 billion (b) to \$1.85b.

To put those figures in context, 2012-13 forecasts of major transportation-fund revenues include: motor fuel taxes, \$970.6m; net registration fees (after bond payments), \$394.5m; and driver's license fees, \$41.7m. Compared to a hypothetical 18.8% jump in transportation revenues, total sales tax collections in 2012-13 are projected to grow 2.3% and total general fund tax revenues, 3.5%.

Long-term impact detailed

What might be the effect of the sales tax change on the transportation and general funds? The following table estimates future sales tax collections and diversions to the transportation fund (see notes for assumptions).

■ **Transfer begins.** In fiscal 2011-2012 (2012), the sales tax is projected to bring in \$4,349.8m (\$4.35 b), all of which would go to the general fund. The following year, collections are estimated to rise 2.3% to \$4.45b. After that, collections are assumed to grow 3% per year. Earmarking sales taxes would begin in 2012, with 7.5% of vehicle-related



Wisconsin Transportation: 2011 and Beyond

Wisconsin residents have long enjoyed quality transportation infrastructure. In fact, state officials have historically made a concerted effort to improve and maintain roads at higher standards than the nation and many neighboring states. However, stagnant transportation-related taxes and fees, combined with state budget problems of the past decade, leave some questioning whether a new approach to transportation funding is needed. Increased borrowing has filled the revenue/spending gap in recent years, but rising debt service payments will result in higher costs down the road.

The 2011-13 state budget sought to address some of these concerns through major transportation funding changes. Supporters argue these changes indicate the state is serious about addressing its long-term transportation needs; others worry the changes came at the expense of education and other programs, which were reduced.

TRANSPORTATION REVENUES

Transportation projects here are funded through an annual transportation budget exceeding \$3 billion. The budget includes state taxes and fees (commonly referred to as the transportation fund), federal aids, bond revenues, and other smaller revenues.

Taxes and Fees

Taxes and fees are the state's primary source of money for public transportation projects, including highways, airports, railroads, mass transit, and harbor improvements. Revenues are generated from gas taxes, vehicle registration fees, driver's license fees, and other taxes and charges. Tax and fee revenues exceeded \$1.71 billion in 2009-10 (2010*).

Although transportation-related taxes and fees are intended solely for transportation projects, state budget problems of the past decade led state lawmakers to transfer a portion of these monies to the general fund. Over the past four biennia, about \$1.4 billion was used for non-transportation purposes.

*Unless otherwise stated, all years are fiscal.

IN BRIEF

Wisconsin transportation spending exceeds \$3 billion annually. However, slow growth in transportation-related taxes and fees combined with transportation dollars being used for nontransportation purposes has led to greater reliance on borrowing for needed revenues. Some are concerned, however, with rising debt service costs.

- State transportation-related tax and fee revenues exceeded \$1.7 billion in 2010.
- Bond revenue is the fastest growing revenue source for transportation projects here. Debt service is the fastest-growing expenditure.
- The 2011-13 biennial state budget includes a number of transfers to the transportation fund. Included is an annual transfer of 0.25% of general fund taxes.

Also in this issue:

Private Businesses • Playing the Cards Deal • Updated WISTAX Website



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Questions? Comments?



Wisconsin Taxpayers Alliance: 79 Years of
Nonpartisan Research and Citizen Education

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