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TO: Senator Chris Kapenga
Room 15 South, State Capitol

FROM: John Wilson-Tepeli, Fiscal Analyst

SUBJECT: Additional State Highway Improvement Program Funding Scenarios and Revenue Options

As you requested, this memorandum provides information related to two scenarios that would provide different levels of funding for the state highway improvement program in 2017-19. Each scenario's funding level is then compared to the doubled, 2016-17 adjusted base level of state highway improvement program funding for the 2017-19 biennium ($1,900.2 million). This base funding does not include the authorization of bonds and would be, essentially, the current law funding level for the state highway improvement program in that biennium.

Background

The state highway program components involving construction projects (excluding state highway maintenance) are sometimes collectively referred to as the state highway improvement program. This program includes the state highway rehabilitation, major highway development, southeast Wisconsin freeway megaprojects, major interstate bridge, and high-cost bridge programs.

No 2016-17 base level funding (segregated and federal appropriations) exists for major interstate bridge and high-cost bridge programs. However, these program components are currently funded only with general obligation bonding authorizations that were intended to complete the enumerated projects in those programs in the 2015-17 biennium. Therefore, this memorandum only addresses funding for the state highway rehabilitation, major highway development, and southeast Wisconsin freeway megaprojects programs.

DOT's 2017-19 budget request would increase local road aids and state highway maintenance funding, in part, by moving some funding out of the state highway improvement program appropriations and using bonds to offset this reallocation. As a result, in future biennia, a similar level of bonding would likely be required to maintain the same program size, absent increased transportation fund revenues.

For each funding scenario, your office specified that no bonds for transportation purposes would be authorized in 2017-19 and that any gap in program funding under either scenario relative to the adjusted base doubled would be funded by increasing the motor vehicle fuel tax rate to a level sufficient to fund any remaining gap in program funding.

It should be noted that both scenarios would also eliminate DOT's requested 2017-19 bond authorization for all programs, including a $26.1 million authorization for harbor and rail improvements and an $11.9 million authorization for DOT administrative facilities.

In the tables in this memorandum, the additional cost that would be required to fund the two scenarios are shown as negative values or funding gaps, which are then offset by sources of funding, which have been shown as positive values.

Scenario 1

Scenario 1, as shown in Table 1 below, would provide a level of 2017-19 funding for the state highway improvement program specified by your office as follows: (a) $723.4 million for the major highway development program, which, as of August 2016, was the amount that DOT indicated would be required to fund planned activities for enumerated projects in that program in 2017-19; (b) $700.0 million for the southeast Wisconsin freeway megaprojects program, which equals the total 2016-17 program resources that would have been provided under DOT's 2015-17 budget request, doubled; and (c) $2,300.0 million for the state highway rehabilitation, which is equal to the amount of biennial program funding (2,005.6 million) recommended in 2013 by the Transportation Finance and Policy Commission, inflated by 14.7%. This inflationary percentage is essentially the level of state highway improvement program inflation that DOT has measured from 2012-13 to 2015-16 in its construction cost index for that program.

In total, this scenario would provide $3,723.4 million in the 2017-19 biennium, and, as shown in Table 1, would require $1,823.1 million more than would be available in 2017-19, if the current law 2016-17 adjusted base funding doubled ($1,900.2 million) was provided.

TABLE 1

2017-19 State Highway Improvement Program Funding -- Scenario 1
($ in Millions)

	Current Law 2016-17 Adjusted Base Doubled
State Highway Improvement Program	
Major Highway Development Projects	$351.9
Southeast Wisconsin Freeway Megaprojects	30.2
State Highway Rehabilitation	1,518.2
Total	$1,900.3
	Scenario 1
State Highway Improvement Program	
Major Highway Development Projects	$723.4
Southeast Wisconsin Freeway Megaprojects	700.0
State Highway Rehabilitation	2,300.0
Total	$3,723.4
Scenario Funding Level Compared to Adjusted Base Doubled	-$1,823.1

Scenario 2

Scenario 2 would equal the amount of funding that would be provided under the Department's recent 2017-19 request for the state highway improvement program. The Department indicates that its 2017-19 request is intended to focus on the preservation of the existing transportation system and highway safety by providing a relatively higher level of funding for state highway rehabilitation projects, state highway maintenance, and local road aids than in the prior biennium. Consequently, under the request, less funding is provided to the major highway development and southeast Wisconsin freeway megaprojects program components than were included under DOT's 2015-17 budget request. DOT's 2017-19 request would result in the delay of several major highway development projects, the Zoo Interchange project, and the I-94 North-South freeway project. The request, which would authorize $695.0 million in bonds for transportation purposes, includes no significant changes to the transportation fund tax and fee structure. [Under DOT's proposal only $500.0 million in bonds would be used in 2017-19, $461.9 from the new authorization and $38.1 million in carryover bonds. DOT indicates that the remaining $233.1 million of the requested bonding authority would be used on state highway projects during the 2019-21 biennium.]

This scenario, outlined in Table 2, would provide the level of funding requested for the state highway improvement program under DOT's 2017-19 budget request (a biennial total of $2,385.9 million), but without any new transportation bond authorization.

TABLE 2

2017-19 State Highway Improvement Program Funding -- Scenario 2
($ in Millions)

	2016-17 Adjusted Base Doubled
State Highway Improvement Program	
Major Highway Development Projects	$351.9
Southeast Wisconsin Freeway Megaprojects	30.2
State Highway Rehabilitation	1,518.2
Total	$1,900.3
	Scenario 1
State Highway Improvement Program	
Major Highway Development Projects	$562.1
Southeast Wisconsin Freeway Megaprojects	121.9
State Highway Rehabilitation	1,701.9
Total	$2,385.9
Scenario Funding Level Compared to Adjusted Base Doubled	-$485.6

As shown above, Scenario 2 would require $485.6 million more than would be available in the 2017-19 biennium under the current law 2016-17 base funding doubled ($1,900.3 million).

Funding of Scenarios

The top portion of Table 3 under "Additional Funding" reflects the amounts identified in tables 1 and 2 that would be required to fund the Scenarios 1 or 2. Because no transportation bonds would be authorized under the scenarios, estimated debt service in 2017-19 would be $29.1 million lower than under DOT's 2017-19 request (shown under "Offsetting Fiscal Change"). Both scenarios assume this funding would instead be provided to the state highway improvement program in the biennium. The estimated debt service savings would reduce the funding gap for Scenario 1 to -$1,794.0 million (-$1,823.1 million + $29.1 million) and for Scenario 2 to -$456.5 million (-$485.6 + $29.1 million), as shown in the table under "Amount Unfunded Remaining."

TABLE 3

2017-19 State Highway Improvement Program Funding Scenarios
($ in Millions)

	Scenario 1	Scenario 2
Additional Funding		
Above-Base Doubled Funding Amount Required	-$1,823.1	-$485.6
Offsetting Fiscal Change		
Estimated Debt Service Reduction	29.1	29.1
Amount Unfunded Remaining	-$1,794.0	-$456.5
Increase Transportation Fund Revenue		
Required Revenue Needed from Motor Vehicle Fuel Tax Increase*	$1,795.7	$460.1
Unallocated Revenue	$1.7	$3.6

*Under Scenario 1, an increase of 28.1 cents per gallon to the motor vehicle fuel tax rate would be required, whereas under Scenario 2, an increase of 7.2 cents per gallon would be required. Does not take into account any additional transfers to the Department of Natural Resources' conservation fund associated with tax rate increase.

Under both scenarios, as shown in the "Increase Transportation Fund Revenue" section of Table 3, the funding gaps would be eliminated by increasing the motor vehicle fuel tax rate. The motor vehicle fuel tax revenue estimates in this memorandum assume an effective date of August 1, 2017. With regard to Scenario 1, increasing the motor vehicle fuel tax rate by 28.1 cents to 59.0 cents per gallon would result in an estimated $1,795.7 million in additional transportation fund revenue in the 2017-19 biennium. Similarly, for Scenario 2, increasing the motor vehicle fuel tax rate by 7.2 cents to 38.1 cents per gallon would result in an estimated $460.1 million in additional transportation fund revenue in the biennium. This estimated revenue would be appropriated to the state highway improvement program to fund these scenarios. Any additional revenue collected beyond the amount required to fund each scenario would accrue to the balance of the transportation fund.

Other Fiscal Policy Considerations

The revenue estimates and program funding levels in this memorandum are provided on a biennial basis. Because estimated revenue collections would not directly align with the DOT's requested fiscal year allocations for these programs, if either funding scenario would be enacted, the Department might need to adjust highway project construction schedules to more closely align project costs with revenue collections.

With regard to the increases to the motor vehicle fuel tax rate that would be required to fund each scenario, the following caveats should be noted: (a) some minor increase in the level of federal highway funding is expected over the next four federal fiscal years, but no increased federal aid level has been assumed in 2017-19 because the actual amount of the state's aid will remain unknown until Congress passes a federal transportation appropriations act in each of those years; and (b) although neither scenario would authorize the use of additional bonds for transportation purposes in 2017-19, bonds have been used a mechanism for financing state highway improvement projects since the 1970s.

Historically, DOT has used both cash financing and bonding to fund the state highway improvement program. As revenues have remained stagnant bonding has made up a larger percentage of the program's funding. This practice of mixing cash financing and debt financing to fund the state's long-term highway infrastructure investments also reflects the longstanding policy that construction costs associated with these projects should be paid by both present and future users of its transportation system. Neither of the funding scenarios you provided would use any bond financing in the biennium. Rather, both scenarios (Scenario 1, in particular) would raise significant, additional transportation fund revenue for use on such infrastructure projects. To continue the policy of bond-financing certain, long-term projects, rather than cash-financing the entire state highway improvement program, some bonds for use in that program could be authorized. Lastly, it should be noted that both scenarios would increase transportation fund revenue while limiting growth in the debt service supported by that fund (debt service will increase in the 2017-19 biennium due to the issuance of previously authorized, unissued bonds). Therefore, the ratio of transportation fund-supported debt service to revenue would decrease under either of your proposals.

I hope this information is helpful. Please let me know if you have any questions.

JWT/sas