Posted By:
Wheeler Reports, Inc.

Senator Darling
Representative Vos

TRANSPORTATION

Omnibus Transportation Motion

Motion:

Move to make the following modifications to the bill related to transportation:

1. *Federal Highway Formula Aid.* Adopt Alternative #1 of LFB Issue Paper #643, which would approve the Governor's recommendation to estimate total federal highway aid at $715,340,300 in 2011-12 and $721,395,300 in 2012-13.

2. *Transfer from the General Fund to the Transportation Fund.* Adopt Alternative #5 of LFB Issue Paper #644, which would delete a provision in the bill that would deposit a specified percentage of sales tax revenue from the sale of motor vehicles and motor vehicle parts and accessories in the transportation fund instead of the general fund. Instead, require the Department of Administration, beginning on June 30, 2013, and annually thereafter, to transfer an amount equal to 0.25% of total general fund taxes, as shown in the general fund condition statement contained in the biennial budget act for that fiscal year, from the general fund to the transportation fund. Specify that the amount transferred in each fiscal year may not be less than $35,127,000. Require the Department of Administration to make a separate transfer of $125,000,000 from the general fund to the transportation fund in 2011-13.

3. *Transportation Finance and Policy Study Commission and Biennial Transportation Financing Plan Requirements.* Establish a Transportation Finance and Policy Study Commission to examine issues related to the future of transportation finance in this state. Specify that the Commission shall consist of the Secretary of the Department of Transportation, as a nonvoting member, and ten public members, one each appointed by the Speaker of the Assembly, the Assembly Minority Leader, the Senate Majority Leader and the Senate Minority Leader, and six appointed by the Governor. Specify that five of the public members shall have experience in public finance, transportation policy, or transportation system planning.

Require the Commission to address the following issues: (a) the estimated costs of: (1) highway maintenance, rehabilitation, reconstruction, and expansion projects over a ten-year period, including both those currently identified in the Department of Transportation's six-year program and those in the Department's long-range transportation plans; and (2) local government transportation aid and assistance programs, including general transportation aids and mass transit operating assistance; (b) projections of transportation fund revenues over the same ten-year period; (c) projections of transportation fund debt service over the same ten-year period, under various scenarios for the use of bonds; (d) various options for increasing transportation fund revenues or adjusting transportation fund expenditures over the ten-year period to achieve a stable balance between expenditures, revenues, and debt service; and (e) the impact of highway project planning for specific projects on landowners with property abutting proposed improvements.

Require the Commission to prepare a report with findings and recommendations to the four legislative leaders and the Governor by March 1, 2013.

Require the Department of Transportation to submit a 10-year plan every two years with its biennial budget request that includes an estimate of total transportation fund revenues, proposed bonding, and estimated debt service for each year of the period. Require the Department to show various scenarios in the plan with different levels of transportation spending, from bond or cash sources, and different levels of revenues. Specify that at least one scenario should result in achieving a stable debt service percentage by the end of the 10-year period. Specify that for any scenarios that result in an increasing debt service percentage, the plan should identify the potential consequences for specific transportation programs of reduced net revenues.

4. *General Transportation Aids Funding.* Modify the Governor's recommendation by doing the following: (a) restoring the mileage aid rate to $2,117 per mile for 2012 and thereafter; (b) increasing the proposed minimum aid guarantee from 85% to 90% of the prior year payment; and (c) providing $2,160,100 SEG in 2011-12 and $8,640,500 SEG in 2012-13 for counties and $6,623,800 SEG in 2011-12 and $13,247,700 SEG in 2012-13 for municipalities (no funding shift would occur). Set the distribution for calendar year 2012 and thereafter at $102,615,600 for counties and $308,904,300 for municipalities. Delete the Governor's recommended changes from 90% to 85% under the penalty provisions to reflect the change in the minimum guarantee.

5. *Supplemental Paratransit Aid.* Provide $2,500,000 SEG annually to supplement the costs of paratransit service provided by transit systems that are eligible for state mass transit operating assistance. Require the Department of Transportation to annually distribute the paratransit funding to eligible transit systems in a way that would maximize the level of paratransit service provided by those systems. Specify that the Department must give priority in the distribution of the funding to paratransit service that existed on the effective date of this provision. Create an annual appropriation funded from the transportation fund to provide these supplemental paratransit payments. Define "paratransit service" to be comparable transportation service required by the federal American with Disabilities Act for individuals with disabilities who are unable to use fixed route transportation systems.

6. *Funding Source for the Mass Transit Aid Program.* Adopt Alternative #6 of LFB Issue Paper #651, which would delete a provision in the bill that would switch the funding source from the transportation fund to the general fund, beginning in 2012-13. Increase funding for mass transit assistance by $106,478,300 SEG in 2012-13 and reduce GPR funding for the program by a corresponding amount.

7. *State Highway Rehabilitation Program Funding.* Modify the funding for the state highway rehabilitation program as follows: (a) reduce funding by $1,000,000 SEG in 2011-12 and $39,261,300 SEG in 2012-13; (b) increase funding by $1,000,000 FED in 2011-12 and $2,061,300 FED in 2012-13; and (c) authorize $31,000,000 in transportation fund-supported, general obligation bonds for the program. Increase funding by $768,000 SEG in 2012-13 to reflect estimated debt service payments on the bonds.

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8. *Major Highway Development Program.* Adopt Alternatives #A1, #B1, #C2, #D1, and #E2 of LFB Issue Paper #666, which would: (a) approve the Governor's recommended funding level for the major highway development program; (b) approve the Governor's recommendation to modify the definition of a major highway project, with a modification to authorize the Department to determine the initial applicability of the definitional change; (c) modify the Governor's recommendation with respect to the Transportation Projects Commission review of high-cost rehabilitation projects to: (1) clarify that the expedited review procedure would not apply to projects that exceed the capacity expansion thresholds for a major highway project; and (2) delete the 14-day passive review process as part of the expedited review and instead specify that DOT cannot proceed with construction of one of these projects unless the Commission meets and approves, or modifies and approves, the Department's request; (d) approve the Governor's recommendation to enumerate four major highway projects for construction; and (e) maintain current law TPC recommendation policy.

9. *High-Cost Bridge Program.* Create SEG, FED, and SEG-L appropriations for high-cost state highway bridges, for rehabilitation or construction projects on bridges on the state trunk highway system, other than major interstate bridge projects, with an estimated cost exceeding $150,000,000. Specify that a bridge project meeting these specifications is not considered a major highway project or southeast Wisconsin freeway megaproject. Specify that during the 2011-13 biennium, the Department may use funds from the major highway development, state highway rehabilitation, and the southeast Wisconsin megaprojects program for preliminary costs associated with the reconstruction of the Hoan Bridge and approaches to the east bank of the Milwaukee River on I-794 in Milwaukee County.

10. *Southeast Wisconsin Freeway Megaprojects.* Adopt Alternatives #A1 and #B1 of LFB Issue Paper #667, which would approve the Governor's recommended funding level for the I-94 North-South freeway project and the Zoo Interchange project. Modify the bill to require the Department to submit a report to the Committee, by December 1, 2011, that does the following: (a) outlines a financing plan and schedule for the Zoo Interchange project, including planned expenditures by year and by funding source, through the year of completion; (b) shows the impact on transportation fund debt service of the issuance of bonds for the project as well as past and future issuance of transportation fund-supported bonds for other projects and programs; and (c) provides estimates of the percentage of gross transportation fund revenues that would be required for the payment of transportation debt service on any bonds described under (b), through two years following the year of completion of the Zoo Interchange project.

11. *Minimum Service Hour Requirements for Division of Motor Vehicles Service Centers.* Provide $6,000,000 SEG in 2011-12 and $4,000,000 SEG in 2012-13 and 55.0 SEG positions annually for the Division of Motor Vehicles and require the Department of Transportation to provide at least 20 hours of driver's license-related services per week in each county in the state. Require the Department to provide services in each county in the most cost-effective means possible, including by contracting with counties or other local governments to provide services.

12. *State Patrol Recruit Class Funding.* Provide $2,800,000 SEG in 2011-12 for the Division of State Patrol for costs related to conducting a recruit class for new troopers and inspectors.

13. *Bicycle and Pedestrian Facilities Grant Program.* Increase funding by $1,000,000 FED annually for the bicycle and pedestrian facilities grant program, to provide a total, when added to base funding, of $3,720,000 FED annually.

14. *Astronautics Assistance.* Move to provide $10,000 SEG in 2011-12 in the astronautics assistance appropriation for the Wisconsin Aerospace Authority.

15. *Local Roads Improvement Program Funding.* Transfer $10,000,000 SEG annually from the state highway rehabilitation program to the discretionary grant component of the local roads improvement program. Increase the annual allocation for discretionary grants by $5,000,000 each for town road projects and county highway projects.

16. *Limitations on Appeals and Litigation Expenses in Eminent Domain Proceedings.* Make the following modifications with general applicability to the state's eminent domain law:

a. Limit the amount of attorney's fees included in the litigation expenses that are reimbursed by an acquiring authority, in cases involving the appeal of a condemnation award, to an amount equal to one-third of the difference between the amount awarded by the condemnation commission or jury verdict and the acquiring authority's rejected jurisdictional offer or highest written offer prior to the jurisdictional offer. Specify that if this amount is less than $5,000, and the property owner shows good cause, the amount of reimbursed attorney's fees may exceed one-third of the difference, but may not exceed $5,000. Specify that the same limits apply in cases of an appeal to a circuit court of an award of a condemnation commission, except that the calculation of the limit shall be based on the difference between the court's award and the condemnation commission's award.

b. Limit the circumstances under which litigation expenses may be awarded following an appeal in a condemnation proceeding, by increasing the trigger amount by which the final award must exceed the jurisdictional offer or highest written offer from at least $700 and at least 15% of the offer, under current law, to at least $10,000 and at least 15% of the offer.

Make the following modifications with applicability to: (1) property acquisition proceedings involving transportation projects, sanitary and storm sewers, watercourses, water transmission and distribution facilities, and gas or leachate extraction systems used to remedy environmental pollution from a solid waste disposal facility; and (2) other public and private entities with condemnation authority (such as other state and local agencies and utilities), except for certain types of projects initiated by first class cities (Milwaukee), municipal utilities, or for cemeteries, which are governed by separate statutory provisions:

a. Eliminate a current law provision that gives a property owner the right to file an appeal with the county condemnation commission or circuit court over the amount of an award for property acquisition and relocation or other related expenses in cases where the property conveyance occurred as the result of a negotiated settlement. Specify that this provision would first apply to conveyances recorded with the register of deeds on the general effective date of the budget act. Property owners would retain the right to refuse a negotiated settlement and appeal the amount of a subsequent condemnation award.

b. Specify that only an appraisal submitted by the condemning authority or an appraisal submitted by the property owner prior to the submission of a jurisdictional offer (following the failure to reach a negotiated settlement) may be introduced by either party in a subsequent appeal.

Make the following modification with applicability to property acquisition proceedings involving transportation projects and the other types of projects listed in "a" above:

Modify a current law provision relating to the appeal of a condemnation award (in cases not involving a negotiated settlement), to specify that only appraisals presented by the acquiring authority, or an appraisal prepared on behalf of the property owner and submitted to the acquiring authority prior to the service of a jurisdictional offer, may be used in an appeal.

Specify that these provisions would first apply to appeal actions brought, conveyances recorded, appraisals obtained, and negotiations obtained on the general effective date of the budget act.

17. *Relocation of Outdoor Advertising Signs.* Specify that realignment of a real estate site of an outdoor advertising sign that does not conform to a municipal or county ordinance where the realignment is caused by a state highway project shall not affect that sign's nonconforming status under that ordinance. Specify that in any case where such a sign is proposed to be moved as part of a state highway project, DOT shall notify the affected ~~municipal or~~ county government of the proposed realignment, and the affected municipal or county government may petition the Department to condemn the sign and any real estate interest of the sign owner that must be acquired. If the Department condemns the sign, the petitioning unit of government shall pay to the Department an amount equal to the condemnation award made for the sign and related real estate interest, less relocation costs for the sign that would have been paid by the Department if the sign had been relocated rather than condemned. Specify that in the event of nonpayment, the Department may withhold an amount due from the local government's general transportation aid payment. Specify that these provisions do not permit the alteration or movement of a sign that is nonconforming under state law.

18. *Bidding Requirements for Public Works Projects.* Prohibit any county or municipality from using its own workforce to perform a highway improvement project on highways under its jurisdiction, or highways under the jurisdiction of another local government, if the project costs $100,000 or more, and either of the following apply: (a) the project is funded in part or in full with federal funds, and construction commences after July 1, 2013; or (b) the project is funded in part or in full with state funds, not including funds received under the general transportation aid program, and construction commences after July 1, 2015. Specify that this restriction does not apply to: (a) projects performed by a county workforce on town roads if the state funding is provided under the local roads improvement program and the project complies with bidding requirements and exceptions under that program (as modified below); and (b) the portion of projects under the discretionary component of the county highway improvement program funded with county funds.

Prohibit any unit of government from doing any public construction, public works project, or construction-related services, including, without limitation, road, sewer, water, stormwater, wastewater, recycling or bridge projects, for or with another unit of government under any agreement or arrangement, including, without limitation, an intergovernmental cooperative agreement or under local government purchasing provisions, but specify that this prohibition does not apply to town road projects funded under the local roads improvement program or public contracts entered into by a town with another unit of government, effective three months after the general effective date of the bill.

Prohibit any county from using its own workforce to perform a highway improvement project, not including highway maintenance work, for or with any village or city, regardless of the source of funds, if the project has a cost exceeding $100,000, effective three months after the general effective date of the bill.

Specify that the restrictions, as described above do not apply in emergencies formally declared by the chief elected official of the municipality or county or for projects where all materials are donated and labor is provided by unpaid volunteers. Specify that the above restrictions do not apply to any projects conducted by a county under an individual project agreement approved prior to the general effective date of the bill.

Modify a current law provision that exempts county public works projects from general bidding requirements, under certain circumstances, to conform with these changes. Prohibit any county or municipality from dividing an improvement project into two or more pieces for the purpose of evading the $100,000 thresholds in these provisions.

19. *Restrictions on Work Done for Private Entities.* Prohibit any local government, using its own workforce, from performing the construction of roads, sewers, water, stormwater, wastewater, grading, parking lots, or other infrastructure or construction-related services on behalf of a private entity, including infrastructure projects where the responsibility for the cost of the infrastructure belongs to a private entity, effective three months after the general effective date of the bill.

20. *Local Roads Improvement Program Bidding Requirements.* Modify the local roads improvement program bidding requirements, effective July 1, 2015, to: (a) eliminate a provision that allows a city or village to contract with a county for an improvement under the program if it does not receive a responsible bid for the project; (b) eliminate a provision that allows a county to perform work under the program under certain conditions, including if the county finds that it would be cost-effective to do so; and (c) specify that counties may perform work under the program for a city or village within the county or work on its own system only if the cost of the project is less than $100,000. Specify, effective three months after the general effective date of the bill, that a county may not perform work for a project for which the county has prepared the required project cost estimate (a sealed estimate prepared prior to the submission of bids).

21. *Local Roads Improvement Program Project Eligibility.* Specify that a double seal coat project on a town road is eligible for funding under the local roads improvement program if it has a projected life of at least 10 years, similar projects in the same geographic area have performed satisfactorily, and the county highway commissioner of the county in which the project is located approves the project's eligibility.

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22. *Prohibition on Alternative Bidding Methods.* Prohibit local governments from utilizing methods for letting public works projects for bid, other than accepting sealed bids, awarded to the lowest responsible bidder. Specify that this prohibition applies to bidding methods that give preference based on the geographic location of the bidder or that use other criteria that affect the selection of the lowest responsible bidder.

23. *Local Let Authority.* Eliminate a current law provision that authorizes DOT to designate the governing body of a local government as its agent on behalf of the state to perform bidding, contracting, and oversight responsibilities for a state highway improvement project.

24. *State Highway Maintenance Program -- Funding.* Provide $15,000,000 SEG annually for the state highway maintenance program.

25. *State Highway Maintenance Program -- DOT Requirements.* Require DOT to work cooperatively with the county highway departments to determine an appropriate level of state work sufficient to fully utilize manpower and equipment needed for winter maintenance. Require DOT, in each biennial budget submission, to include a funding proposal for maintenance activities performed by counties that is no less than the base year and includes an inflationary adjustment, if it is determined that the level of funding for that purpose is inadequate to perform needed maintenance activities.

26. *State Highway Maintenance Program -- Definitions of Maintenance Activities.* Modify provisions related to highway maintenance activities done by counties or municipalities, as follows: (a) eliminate the authority of DOT to contract with a county or municipality for maintenance of state trunk highways beyond the limits of the county or municipality, except that: (1) in cases where a short segment of highway passes through a county, but for which there is no access or only limited access to that highway from other parts of the county, the Department may contract with an adjoining county to maintain that short segment; and (2) the Department may deploy county and municipal maintenance resources across county lines for winter maintenance snow plowing, salting, deicing, pot hole filling, and incidents such as pavement and deck failures, incident response, and bridge hits; (b) modify the definition of maintenance to specify that it does not include repair that is a capital investment that will improve a highway facility for at least 10 years; (c) specify that maintenance activities include restoring material losses, patching, mudjacking, joint filling, crack sealing, and interim short resurfacing projects, provided that they are less than 500 feet in length, less than three-fourths inch thick, and cost less than $25,000; (d) specify that the term maintenance does not include a highway improvement project; (e) modify a provision that authorizes the Department to contract "with a private entity for service or materials or both associated with the installation, replacement, or maintenance of highway signs, traffic control signals, highway lighting, pavement markings, and intelligent highway systems" to eliminate the phrase "associated with the ...systems"; and (f) make the following other modifications to the term "maintenance": (1) eliminate the distinction in the definition of maintenance between general maintenance and special maintenance; (2) modify the phrase "repair of highway surfaces..." to be "interim repair of highway surfaces..."; (3) change the term "complete repair" to "repair" and add the phrase "of travel surfaces, shoulders, roadsides and traffic weigh stations, park and ride lots, drainage facilities, bridges, bridge, tunnels" after "repair"; (4) include sanding of ice in the list of maintenance activities; (5) replace the term

"restoration" with the term "preservation"; and (6) eliminate the phrase "all measures necessary to provide adequate traffic service".

27. *State Highway Improvement Program Bidding Requirements.* Delete a current law provision that authorizes the Department to contract with a county or municipality for a highway improvement project. Instead, specify that the Department may enter into such contracts only if the project is an emergency and no private contractors are available. Specify that this provision takes effect three months after the general effective date of the bill. Authorize the Department to employ an accelerated bidding process under circumstances when a project is unexpectedly needed and the normal timelines and bidding documents allow insufficient time to follow uniform methods.

28. *Borrow and Disposal Sites for Transportation Projects.* Modify a current law provision that exempts any site for the excavation of borrow (soil or a soil, stone, and gravel mixture) from local zoning ordinances provided that it meets certain conditions and is opened for use prior to July 1, 2011, as follows:

a. eliminate the July 1, 2011 applicability sunset date for these provisions, but specify that the current law zoning exemptions would continue to apply to borrow sites opened prior to that date.

b. expand the applicability of the provision to cover: (1) sites for use of material disposal (defined below), in addition to sites used for excavation of borrow; (2) sites for any transportation project (defined below), instead of, under current law, any state highway construction project; and (3) any site off the site of a transportation project, provided that the Department determines that the site is not a commercial establishment that has a fixed place of business from which the establishment regularly supplies processed or manufactured materials or products, instead of, under current law, any site that is located on a property near the site of a state highway construction project for which borrow is being used. Define "material disposal site" as a site used for the lawful disposal of surplus materials from a transportation project that is under the direct control of the transportation project contractor or a transportation project subcontractor, but specify that the term does not include a private landfill that is not managed by the transportation project contractor or a transportation project subcontractor or a landfill that is owned or directly controlled by a political subdivision. Define "transportation project" as a construction or maintenance project that relates to an airport, railroad, highway, bridge, or other transportation facility that is directed and supervised by DOT and that is subject to an interagency expedited permit approval agreement between DOT and DNR.

c. modify the conditions for the applicability of the zoning exemption as follows: (1) specify that the transportation project contractor must assume sole responsibility for the operation of the site; (2) specify that the transportation project contractor or subcontractor may not crush, screen, wash, blast, or apply another manufacturing process to mineral aggregate from the borrow site, on or off the borrow site, to produce finished aggregate products; (3) specify that the contractor must comply with any applicable noise limit standards established by administrative rule by the Department of Commerce for mine or quarry operations, instead of, under current law, agreeing to any noise abatement measures required by the governing body of the applicable political subdivision; (4) specify that the contractor must comply with applicable restoration requirements established by DOT and DNR under the interagency agreement for the project and any restoration requirements established by DOT for construction site erosion control, instead of, under current law, agreeing to any landscaping measures required by the governing body of the applicable political subdivision; and (5) eliminate a requirement that the owner of the property on which the borrow (or material disposal) site is located agrees to reasonably restore the site after the period of use.

[Change to Bill: $125,000,000 GPR-Transfer; -$106,478,009 GPR; -$125,000,000 SEG-REV; $145,467,100 SEG and 55.0 SEG positions; $5,061,300 FED; and $31,000,000 BR]

Posted By:
Wheeler Reports, Inc.

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 24, 2011 Joint Committee on Finance Paper #651

Mass Transit Operating Assistance -- Funding Level and Convert Funding to GPR (DOT -- Local Transportation Aid)

[LFB 2011-13 Budget Summary: Page 433, #2 and #3]

CURRENT LAW

In 2011, state mass transit systems will receive $118.3 million in state transit aid. Over 90% of this aid will be distributed to bus systems, with the remainder being distributed to shared-ride taxi systems. Calendar year 2011 distributions are set at $68,583,200 for Tier A-1 (Milwaukee), $18,021,300 for Tier A-2 (Madison), $25,852,500 for Tier B, and $5,852,200 for Tier C. No funding is currently appropriated for Tier A-3 commuter rail systems.

GOVERNOR

Funding Level

Provide decreases of $373,200 SEG in 2011-12 and $9,246,400 SEG in 2012-13, as follows: (a) -$216,400 in 2011-12 and -$5,360,100 in 2012-13 for Tier A-1 (Milwaukee); (b) -$56,800 in 2011-12 and -$1,408,400 in 2012-13 for Tier A-2 (Madison); (c) -$81,600 in 2011-12 and -$2,020,600 in 2012-13 for Tier B transit systems; and (d) -$18,400 in 2011-12 and -$457,300 in 2012-13 for Tier C transit systems. Set the calendar year distribution amounts for 2012 and thereafter at $61,724,900 for Tier A-1, $16,219,200 for Tier A-2, $23,267,200 for Tier B, and $5,267,000 for Tier C. This represents a 10% decrease from the 2011 mass transit operating assistance funding level to each tier of mass transit systems for calendar year 2012 and thereafter. Repeal statutory references relating to aid payments for each tier of systems for calendar years 2008 and 2009.

Convert Funding to GPR

Provide $106,478,300 GPR in 2012-13 and make a corresponding reduction of $106,478,300 SEG in 2012-13 to reflect the conversion of DOT's mass transit operating assistance program funding from the transportation fund to the general fund. Effective July 1, 2012, renumber the mass transit operating assistance appropriations and specify that the appropriations would be made from the general fund. In addition, modify the references to the appropriations under DOT's urban mass transit assistance program to reflect the renumbering.

DISCUSSION POINTS

Background

1. The state's current mass transit tier system generally parallels federal aid categories, with tiers for urbanized areas with populations over 200,000 (Tiers A-1 and A-2), urbanized areas with populations between 50,000 and 200,000 (Tier B), and nonurbanized areas (Tier C). The Ozaukee County, Washington County, and Waukesha systems are within the Milwaukee urbanized area and the Monona, Stoughton, Sun Prairie, and Verona systems are within the Madison urbanized area for federal aid purposes. However, Verona is the only municipality other than Madison that receives federal aid in the Madison urbanized area. Urbanized areas over 200,000 receive their federal aid directly from the Federal Transit Administration (FTA), while the smaller urban systems and the nonurban systems receive their federal funding through the Wisconsin Department of Transportation (DOT).

2. Transit systems that serve populations over 200,000 are not eligible for federal operating assistance. These systems do receive federal capital assistance, and the federal appropriation language for that assistance allows a portion of the capital funding to be used to fund annual maintenance costs of such systems, which are generally considered operating expenses. These systems must report any federal maintenance funds used to fund annual operating costs to DOT for the purposes of administering the mass transit operating assistance program.

3. Mass transit aid payments are made from sum certain, transportation fund appropriations. For Tier A-1 and Tier A-2, each system is provided a specified amount of funding for a calendar year. For Tier B and Tier C, DOT makes transit aid distributions so that the sum of state and federal aid equals a uniform percentage of annual operating expenses for each system within a tier. The combined state and federal aid percentages for Tier B and Tier C systems float to a level that expends the state funds administered by DOT and the level of federal funds that DOT allocates for operating expenses. Local funds, consisting primarily of local property tax and farebox revenues, finance the remaining costs. Because DOT must provide a uniform percentage of state and federal aid to systems within these tiers, each system's share of the state funding is affected by the cost changes of the other systems, as well as its own costs.

4. Total state mass transit operating assistance funding has increased in recent years. The following table lists the funding levels and percentage change in mass transit operating assistance for each of the past ten years and the proposed amount for 2012.

TABLE 1

Mass Transit Operating Assistance Funding

Calendar Year	Amount	% Change
2002	$96,726,800	
2003	98,661,400	2.0%
2004	98,661,400	0.0
2005	98,661,400	0.0
2006	100,634,600	2.0
2007	102,647,400	2.0
2008	110,013,600	7.2
2009	112,643,900	2.4
2010	114,863,100	2.0
2011	118,309,200	3.0
2012 (proposed)	106,478,300	-10.0

Impact of Proposed Aid Reduction

5. The Governor's recommended appropriation levels would fully fund the calendar year 2011 increase in mass transit operating assistance provided in 2009 Act 28. The appropriation decreases are associated with the proposed 10% funding reduction for aid in calendar year 2012 and thereafter. The following table indicates the recommended annual funding levels for each tier of systems in 2011(current law) and in 2012 and thereafter (proposed).

TABLE 2

Transit Funding by Tier of Systems Under the Governor's 2011-13 Budget Recommendations

Tier	2011	2012	Difference	Percent
Tier A-1	$68,583,200	$61,724,900	-$6,858,300	-10.0%
Tier A-2	18,021,300	16,219,200	-1,802,100	-10.0
Tier B	25,852,500	23,267,200	-2,585,300	-10.0
Tier C	5,852,200	5,267,000	-585,200	-10.0
Total	$118,309,200	$106,478,300	-$11,830,900	-10.0%

6. The 2011 aid contracts between DOT and the state's transit systems have not yet been finalized. This is primarily due to the delay in congressional approval of the 2011 FTA grant program funding, which is part of prolonged congressional debate on the recently enacted 2011 federal budget. Federal transit funding for 2011 is expected to be near the 2010 levels. However, due to long-term budgetary concerns associated with the federal highway trust fund, which includes

the mass transit account and funding, reductions in federal transit aid are a possibility in future years. Any reduction in federal formula funding would further exacerbate the impact of the proposed state aid reductions to mass transit.

7. The Governor has indicated that the reductions in the bill for transit and other local aid programs would be offset by the changes to the state's collective bargaining laws included under 2011 Act 10. He indicates those changes would lead to reduced payroll costs for local governments, which would allow them to absorb the state aid reductions. Specifically, the Governor has pointed to the Act 10 provisions that would require local employees to pay the full employee share of their pension contributions (generally 5.8% of salary) and additional health care premiums, both previously paid by the governmental employer, as the means by which local governments could reduce their payroll costs. However, many transit systems in southeastern Wisconsin, including Milwaukee County Transit, as well as most shared-ride taxi operations, are not run by the municipal government whose area they serve. Rather, these systems are operated by private transit companies or contractors. Therefore, the employees of these systems would not be subject to the Act 10 changes. As a result, Milwaukee County Transit, and several major Tier B systems in southeast Wisconsin, as well as most shared-ride taxi systems, may not experience payroll reductions to assist in offsetting the state aid reduction. In a somewhat similar situation, the Governor, in recognizing the inability of many town governments to generate payroll reductions under Act 10, provided only a 3% reduction in general transportation aids to those governments (primarily towns) on the rate per mile formula, while most other municipalities received a 10% to 15% reduction.

8. Also, under federal labor law, transit systems are required to maintain the collective bargaining rights that existed for their transit workers when that system first received FTA transit funding. No FTA transit funding may be awarded unless this provision is met. U.S. Department of Labor officials have indicated that the changes to the state's collective bargaining laws under Act 10 could impact the ability of unionized, government-operated transit systems to receive FTA grant funding unless changes are made to protect their workers' collective bargaining rights. Any actions by local units of government to protect such rights in order to receive federal funding could make it more difficult for government-operated transit systems to attain any of the payroll concessions that may be available under Act 10.

9. As indicated in Table 3, if the proposed 10% reduction in transit operating assistance had occurred in 2010, the percentage of transit system costs covered by state aid would have declined by 3.6% statewide. Among the individual tiers of systems, a 10% aid reduction in 2010 would have resulted in decreases in state aid as a percentage of costs ranging from 2.6% to 4.0%. Tier A-1 (Milwaukee County) and Tier A-2 (Madison) systems are limited by federal law in their ability to use federal transit aid to assist in their systems' operations. Therefore, compared to Tier B and Tier C systems, these systems are more heavily dependent on state aid to cover their costs. As a result of this dependence, the proposed reduction in transit aid will require the Milwaukee County and Madison systems to cover an even greater share of their costs than the other tiers in order to replace the lost state aid.

TABLE 3

State and Federal Funding as a Percentage of Operating Cost by Tier in 2010 and Under a 10% Reduction in 2010

	2010 Actual		2010 With 10% Reduction		Difference	
	State Funding	State and Federal	State Funding	State and Federal	State Funding	State and Federal
Tier A-1	40.0%	51.2%	36.0%	47.2%	-4.0%	-4.0%
Tier A-2	36.2	50.8	32.6	47.2	-3.6	-3.6
Tier B	30.6	58.5	27.5	55.4	-3.1	-3.1
Tier C	26.0	64.5	23.4	61.9	-2.6	-2.6
Statewide	36.0	53.9	32.4	50.3	-3.6	-3.6

10. With the chances of increased federal funding levels for transit in 2012 and 2013 unknown at this time, local governments that operate a transit system would have three options to consider if the proposed state funding reductions are enacted: (a) increase the amount of local funding provided for transit; (b) increase fares paid by the users of their transit services; or (c) reduce the level of transit service and the costs associated with that service. As the following points show, relying on only one of these options may be difficult, so transit operators may need to implement a combination of actions.

11. Local funding for transit primarily consists of local property tax revenue. Statewide, local revenues for mass transit totaled $55.5 million in 2010, which covered an average of 17.4% of mass transit costs for that year. Had the proposed reduction in transit aid occurred in that year, local governments would have had to provide an additional $11.5 million in transit assistance, or an average increase of 20.7% in the amount of local funding, in order to maintain the existing service with no additional fare increases. However, since the bill includes a somewhat restrictive local levy limit for counties and municipalities, local governments may not be able to raise additional property taxes to replace the proposed reduction in state aid. Therefore, if a county or municipality wanted to increase local funding for transit to replace the reduction in state aid, it would likely have to reduce local expenditures elsewhere in its budget.

12. In 2010, local farebox revenues for transit totaled $91.3 million. Had the proposed reduction in transit aid occurred in that year, local governments would have had to raise fares by an average of 12.6% in order to fully replace the proposed state aid reduction and maintain the same level of transit service. The actual percentage increase in farebox revenues would vary by system. For example, to fully cover the state aid reduction, Milwaukee County Transit fare revenues would have had to increase by 11.2%, while Fox Valley Transit fares would have had to increase by 14.2%. However, because transit ridership is sensitive to changes in fares, ridership would likely decrease if fares were increased to cover the full amount of state aid reductions. Therefore, any increase in transit fares would have to net the loss in revenue associated with reductions in ridership against any additional revenue associated with the fare increases. Depending on the magnitude of

this effect, it may be difficult for some transit systems to recover the reduction in state aid from increased fares alone.

13. In 2010, according to DOT's transit contracts, transit costs statewide totaled $318.8 million. Statewide, a 10% reduction in 2010 state transit aid would have equaled 3.6% of those transit costs. Similar to fare increases, any reduction in transit services made in an attempt to better absorb the proposed state aid reductions could lead to a net reduction in revenues depending on the profitability of the service being cut. Again, this could make it difficult for transit systems to look to service cuts alone to make up for reductions in state transit aid.

14. The Southeastern Wisconsin Regional Planning Commission (SEWRPC) recently completed a study on the potential service reductions and fare increases that would be needed to offset the proposed state transit aid reductions in 2012. The study looked at the transit systems in southeastern Wisconsin, including the bus systems serving Kenosha, Milwaukee, and Racine counties and the shared-ride taxi systems operated in the cities of Hartford, Port Washington, West Bend, and Whitewater. The study assumes a 3% increase in operating costs to support existing transit service levels. SEWRPC found that the bus systems in the region would have to increase fares between 29% and 60% to offset the proposed reduction in state transit aid, with the shared-ride taxi fares having to increase an estimated 28% to 36%. The study also found that the potential service reductions that could be needed to offset the proposed lower state aid levels would range from 6% to 10% for the region's bus systems and 6% or 7% for the shared-ride taxi systems that were studied. These fare increases and service cut estimates for southeast Wisconsin are larger than the statewide estimates presented earlier because they include two additional years of cost growth associated with the existing service level. In addition, the estimates account for revenue and ridership losses associated with the potential fare increases or service cuts.

15. Under the 2009 federal American Reinvestment and Recovery Act (ARRA), transit systems in Wisconsin were apportioned $81.3 million in federal funding in addition to the state's annual federal transit formula funding apportionments in that year. This funding was expended in the state during 2008-09 and 2009-10. The federal ARRA funding was used for capital expenditures and not operating costs and was distributed as follows: $28.5 million to Milwaukee (Tier A-1); $9.5 million to Madison (Tier A-2); $23.2 million to systems in areas between 50,000 and 200,000 in population (Tier B); and $20.1 million to systems in areas with populations under 50,000 (primarily Tier C systems). While this funding could not be used for operating costs, the provision of this funding likely reduced the long term capital needs of the state's larger systems. This may allow additional FTA transit formula funds to be freed up for use by such systems to fund capitalized maintenance. Also, because the state's transit systems used this funding to purchase new transit vehicles and equipment, in the near term, the annual maintenance costs associated with those newer vehicles may be lower as well.

Funding Alternatives

16. Table 4 shows the funding amounts associated with several annual percentage rate changes for the mass transit operating assistance program (due to the difference between the state's fiscal year and the transit aid payment dates, above-base funding would be required even with no

calendar year increase or many of the decreases shown). Compared to the bill, each of these alternatives would provide a smaller reduction from 2011 to 2012 and would then maintain that aid level in 2013 and thereafter [Alternative 2].

TABLE 4

Potential Funding Changes

% Change	Change to Base		Change to Bill	
in 2012	2011-12	2012-13	2011-12	2012-13
0.0%	$2,584,500	$2,584,500	$2,957,700	$11,830,900
-2.0	1,993,100	218,400	2,366,300	9,464,800
-4.0	1,401,500	-2,147,900	1,774,700	7,098,500
-6.0	809,900	-4,514,000	1,183,100	4,732,400
-8.0	218,400	-6,880,300	591,600	2,366,100
-10.0 (Bill)	-373,200	-9,246,400	0	0

17. Under the bill, many other state aid programs, including general transportation aid, would receive a reduction in funding in the biennium. Similar to state transit assistance, general transportation aid funding would be reduced by 10% in 2012, with no increase in 2013. In contrast, the Governor's recommendations would increase transportation fund appropriations over the biennium for the state's highway construction and rehabilitation programs. Combined total transportation fund appropriations for mass transit, general transportation aids, and the state highway programs would be reduced by 0.5% compared to the base year appropriations doubled for the same programs. If the Committee wanted to provide a uniform 0.5% reduction to all three programs, a 4.3% reduction in mass transit operating assistance in 2012 would be needed, with no additional change in 2013 and thereafter. Compared to the bill, the additional funding for mass transit operating assistance that would be needed to fund these distribution levels would be $1,685,900 in 2011-12 and $6,743,600 in 2012-13 [Alternative 2d].

18. During Joint Finance deliberations on the creation of regional transit authorities in Wisconsin, this office provided information [2009 LFB Issue Papers #766, #767, and #768] that indicated that, across the country, local sales tax revenues are used to assist in the funding the operations of small, medium, and large-sized transit systems. As discussed earlier, local units of government would likely have difficulty absorbing the proposed 10% reduction without significant increases in fares or reductions in service. Therefore, similar to other areas of the country, the Committee could provide the sponsoring county or municipality of the state's larger bus systems (Tier A-1, Tier A-2, and Tier B systems) the authority to impose up to 0.5% sales and use taxes within their territorial boundaries to assist in offsetting the proposed state aid reductions. The Committee could require that before any county or municipality could impose the sales and use taxes, the resolution imposing the taxes must be approved by its voters at referendum [Alternative 3].

Conversion of Funding from SEG to GPR

19. Under the Governor's budget recommendations, beginning in 2012-13, the mass

transit operating assistance program would be funded from a GPR appropriation rather than from a transportation fund SEG appropriation. The bill would provide $106,478,300 GPR in 2012-13 and make a corresponding reduction of $106,478,300 SEG in 2012-13 to reflect this conversion. Unless readdressed by a future Legislature, this action would result in the state's mass transit assistance program being funded from the general fund on an ongoing basis, and would result in an ongoing reduction in appropriations for this purpose from the transportation fund.

20. The proposed conversion of the mass transit operating assistance program funding from the transportation fund to the general fund is one of a number of related proposals being made under the Governor's budget. The Governor's budget recommends the deposit of revenues currently deposited to the general fund and other segregated funds to the transportation fund. In addition, similar to the mass transit funding proposal, the budget would fund state highway rehabilitation costs, which have been historically funded from the transportation fund, from the general fund. A description of these revenue and program cost transfers, along with a discussion of each of those proposals, is provided in LFB Paper #642. Alternatives #5 and #6 of this paper would approve or reject, respectively, the Governor's proposal as it relates to mass transit funding.

ALTERNATIVES

Funding Level

1. Approve the Governor's recommendation to provide decreases of $373,200 SEG in 2011-12 and $9,246,400 SEG in 2012-13, as follows: (a) -$216,400 in 2011-12 and -$5,360,100 in 2012-13 for Tier A-1 (Milwaukee); (b) -$56,800 in 2011-12 and -$1,408,400 in 2012-13 for Tier A-2 (Madison); (c) -$81,600 in 2011-12 and -$2,020,600 in 2012-13 for Tier B transit systems; and (d) -$18,400 in 2011-12 and -$457,300 in 2012-13 for Tier C transit systems. Set the calendar year distribution amounts for 2012 and thereafter at $61,724,900 for Tier A-1, $16,219,200 for Tier A-2, $23,267,200 for Tier B, and $5,267,000 for Tier C. This represents a 10% decrease from the 2011 mass transit operating assistance funding level to each tier of mass transit systems for calendar year 2012 and thereafter. Repeal statutory references relating to aid payments for each tier of systems for calendar years 2008 and 2009.

2. Modify the Governor's recommendation by providing annual mass transit aid changes (SEG) for 2012 and 2013 at one of the following percentages. [Although shown as SEG, the change in 2012-13 would be a GPR change if the Committee adopts the Governor's recommendation to fund mass transit operating assistance with GPR, beginning in 2012-13.] Set the distributions for each tier and change the mass transit aid appropriations as shown below:

	Calendar Year 2012 Distribution*	SEG Change to Bill 2011-12	2012-13
a. No Change			
Tier A-1	$68,583,200	$1,714,600	$6,858,300
Tier A-2	18,021,300	450,500	1,802,100
Tier B	25,852,500	646,300	2,585,300
Tier C	5,852,200	146,300	585,200
	$118,309,200	$2,957,700	$11,830,900
b. -2%/0%			
Tier A-1	$67,211,500	$1,371,700	$5,486,600
Tier A-2	17,660,900	360,400	1,441,700
Tier B	25,335,500	517,100	2,068,300
Tier C	5,735,200	117,100	468,200
	$115,943,100	$2,366,300	$9,494,800
c. -4%/0%			
Tier A-1	$65,839,900	$1,028,800	$4,115,000
Tier A-2	17,300,400	270,300	1,081,200
Tier B	24,818,400	387,800	1,551,200
Tier C	5,618,100	87,800	351,100
	$113,576,800	$1,774,700	$7,098,500
d. -4.3%/0%			
Tier A-1	$65,634,100	$977,300	$3,909,200
Tier A-2	17,246,400	256,800	1,027,200
Tier B	24,740,800	368,400	1,473,600
Tier C	5,600,600	83,400	333,600
	$113,221,900	$1,685,900	$6,743,600
e. -6%/0%			
Tier A-1	$64,468,200	$685,900	$2,743,300
Tier A-2	16,940,000	180,200	720,800
Tier B	24,301,400	258,500	1,034,200
Tier C	5,501,100	58,500	234,100
	$111,210,700	$1,183,100	$4,732,400
f. -8%/0%			
Tier A-1	$63,096,500	$342,900	$1,371,600
Tier A-2	16,579,600	90,100	360,400
Tier B	23,784,300	129,300	517,100
Tier C	5,384,000	29,300	117,000
	$108,844,400	$591,600	$2,366,100

*And thereafter.

3. Provide any county or municipality that operates or sponsors a Tier A-1, Tier A-2, or Tier B mass transit bus system the authority to impose up to 0.5% sales and use taxes to fund the operation of that transit system. In addition, specify that before any county or municipality may impose the sales and use taxes under this alternative, the resolution imposing the taxes must be approved by its voters at referendum

4. Delete provision. (No change to base level funding would be provided and payments 2011 and thereafter would be prorated at an average of 97.8%.)

ALT 4	**Change to Bill** Funding
SEG	$9,619,600

Convert Funding to GPR

The SEG and GPR amounts under these alternatives will vary based on the funding level alternatives selected. Under the bill, 2012-13 mass transit operating assistance funding of $106,478,300 would be converted from SEG to GPR.

5. Approve the Governor's recommendation to convert funding for the mass transit operating assistance program from the transportation fund to the general fund, effective July 1, 2012.

6. Delete provision.

Prepared by: Al Runde

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 24, 2011 Joint Committee on Finance Paper #642

Use of Revenues from Other Funds to Support Transportation Programs (DOT -- Transportation Finance)

[LFB 2011-13 Budget Summary: Page 427, #2]

CURRENT LAW

The transportation fund consists of state collections on various transportation-related taxes and fees, including: (a) excise taxes on motor vehicle fuel; (b) vehicle registration, title, and other related fees; (c) driver's license and other related fees; (d) aeronautical taxes and fees; (e) railroad property taxes; (f) miscellaneous Department of Transportation revenues, such as driver license abstract fees and vehicle rental fees; and (g) investment earnings on fund deposits.

The transportation fund revenue is the funding source for various transportation programs, including: (a) state highway construction and maintenance; (b) local road and bridge aid and assistance; (c) mass transit aid; (d) freight rail and harbor assistance; (e) passenger rail operating support; (d) airport assistance; (e) the Division of Motor Vehicles; and (f) the Wisconsin State Patrol (including the transportation safety program).

GOVERNOR

The bill includes the following provisions that, in effect, involve the use of what are currently not transportation fund revenues to fund transportation programs: (a) the transfer of a portion of the sales and use tax on motor vehicles, parts, and accessories from the general fund to the transportation fund; (b) the use of general fund appropriations to support mass transit operating assistance; (c) the authorization of general fund-supported bonds for the state highway rehabilitation program; (d) conversion of the $9 vehicle environmental impact fee, which is currently deposited in the environmental fund, to an additional $9 title fee, which would be deposited in the transportation fund; and (e) a transfer from the petroleum inspection fund to the transportation fund. The following table summarizes the benefit to transportation programs from each of these provisions.

Other Fund Revenues Used To Support Transportation Programs

	2011-12	2012-13	Biennial Total
General Fund			
Sales Tax on Vehicles	$0	$35,127,000	$35,127,000
Mass Transit Appropriations	0	106,478,300	106,478,300
State Highway Rehabilitation Bonds	115,351,500	0	115,351,500
General Fund Subtotal	$115,351,500	$141,605,300	$256,956,800
Environmental Fund			
Shift Environmental Impact Fee	$10,500,000	$10,500,000	$21,000,000
Petroleum Inspection Fund			
Transfer to Transportation Fund	$19,500,000	$19,500,000	$39,000,000
Grand Total	$145,351,500	$171,605,300	$316,956,800

DISCUSSION POINTS

1. This paper provides a general discussion of several measures in the bill that involve the use of general fund or other fund revenues to assist transportation programs. More information on individual items, as well as a discussion of alternatives, is provided in issue papers prepared for each item.

2. Over 90% of transportation fund revenue is generated from the motor fuel tax and vehicle fees (vehicle registration and title fees). These are sometimes referred to as user fees, since it is the users of transportation facilities, through the payment of fuel taxes and vehicle fees, who are charged for the construction of the roads and highways that they use. The transportation fund also includes revenue from other sources that could be considered user fees for other transportation modes and functions. For instance, aeronautical taxes and fees (aviation fuel taxes, aircraft registration fees, and ad valorem property taxes on airline property), railroad property taxes, and driver's license fees are deposited in the transportation fund, to help support related programs.

3. Without changes in statutory tax and fee rates, any revenue growth generated by the motor fuel tax and vehicle registration fees must come from increases in the number of gallons of fuel consumed or the number of vehicles registered. Consequently, revenues can grow as the use of the transportation system grows, but this growth may not be sufficient to offset the demands associated with growing use and inflation in the cost of construction and maintenance programs.

4. In general terms, the "use" of the state's transportation system, measured by motor fuel consumed or vehicles registered, has remained relatively constant, or even fallen, in the past several years. Some of this is clearly related to the economic recession of 2008 and 2009, although some of these trends predate the recession. The following table shows the number of gallons of fuel consumed, and the number of automobiles, light trucks, and heavy trucks registered over the past 10 completed fiscal years, as well a projections for 2010-11 through 2012-13.

Motor Fuel Consumption and Motor Vehicle Registrations
(In Millions of Gallons or Vehicles)

	Motor Fuel		Automobiles		Light Trucks		Heavy Trucks	
Fiscal Year	Gallons	% Change	Number	% Change	Number	% Change	Number	% Change
2000-01	3,112.9		3.168		0.824		0.172	
2001-02	3,209.6	3.1%	3.225	1.8%	0.846	2.6%	0.181	5.3%
2002-03	3,214.1	0.1	3.287	1.9	0.861	1.8	0.191	5.3
2003-04	3,280.8	2.1	3.324	1.1	0.879	2.1	0.201	5.6
2004-05	3,224.6	-1.7	3.363	1.2	0.895	1.8	0.214	6.2
2005-06	3,185.9	-1.2	3.415	1.5	0.903	0.9	0.230	7.5
2006-07	3,259.9	2.3	3.477	1.8	0.910	0.9	0.231	0.2
2007-08	3,247.4	-0.4	3.521	1.3	0.907	-0.4	0.237	2.8
2008-09	3,146.6	-3.1	3.507	-0.4	0.895	-1.4	0.233	-1.6
2009-10	3,143.6	-0.1	3.516	0.3	0.892	-0.4	0.233	-0.3
2010-11*	3,233.0	2.8	3.509	-0.2	0.889	-0.4	0.234	0.6
2011-12*	3,187.9	-1.4	3.499	-0.3	0.886	-0.3	0.240	2.4
2012-13*	3,166.8	-0.7	3.490	-0.2	0.882	-0.5	0.247	3.1

* Projections.

5. Although heavy truck registrations are projected to increase over the next several years, the other items are generally projected to continue falling. Annual fuel consumption in the state peaked in 2003-04 at 3.28 billion gallons, and is projected to remain below that level throughout the 2011-13 biennium and beyond as the fuel economy of vehicles continues to improve. The number of light vehicles registered (automobiles and light trucks) peaked in 2007-08, and is, likewise, projected to remain below that level through the 2011-13 biennium.

6. The following table shows total, gross transportation fund revenues, and the annual rate of growth for the past 10 completed years, and projections for 2010-11 through 2012-13 under current law tax and fee levels. In order to portray revenues generated by current transportation taxes and fees, the amounts shown exclude actual transfers from the petroleum inspection fund ($6.3 million annually from 2004-05 to 2008-09, $16.3 million in 2009-10, and $24.1 million in 2010-11). Likewise, the two years of the 2011-13 biennium exclude additional proposed transfers from the petroleum inspection fund ($25.8 million annually), the proposed increase to the vehicle title fee ($10.5 million annually), and the proposed transfer of vehicle-related sales tax from the general fund ($35.1 million in 2012-13).

Gross Transportation Fund Revenue History and Projections, Excluding Certain Transfers to the Fund and the Proposed Title Fee Increase

Fiscal Year	Gross Revenues	Percent Increase
2000-01	$1,283,376,900	--
2001-02	1,337,655,400	4.2%
2002-03	1,386,588,400	3.7
2003-04	1,440,412,000	3.9
2004-05	1,476,579,000	2.5
2005-06	1,516,985,700	2.7
2006-07	1,606,531,900	5.9
2007-08	1,674,980,200	4.3
2008-09	1,687,289,900	0.7
2009-10	1,697,850,400	0.6
2010-11*	1,711,438,700	0.8
2011-12*	1,714,576,200	0.2
2012-13*	1,712,606,000	-0.1

*Projected amounts, excluding proposed transfers to the fund and the title fee increase.

7. As the preceding table shows, gross revenue growth, in the absence of actual and proposed transfers to the fund, has been, and is projected to be, less than 1.0% since 2008-09. Notably, the last year with a rate of growth higher than that was also the last year in which there was a significant change to transportation fund taxes and fees. On January 1, 2008, the automobile registration fee was increased from $55 to $75, and the registration fees for trucks were also increased for all weight classifications.

8. As the previous points illustrate, without the use of sources of revenue from outside the traditional user fees or increases in those fees, the transportation fund could not support significant funding increases to programs to offset the effect of inflation. Furthermore, since transportation fund debt service has generally increased at a faster rate than revenue growth, net revenues have actually fallen in many recent years. By using other revenue sources, the bill offsets the decline in net transportation fund revenue, thereby supporting transportation program spending at a higher level than otherwise would be the case. [Although it should be noted that the use of transportation bonds and the reallocation of funding between programs also plays a role in the level of funding for particular programs.]

9. The largest, single budgetary measure involving the use of non-transportation fund sources for transportation programs is the authorization of $115.4 million in general fund-supported, general obligation bonds for the state highway rehabilitation program. The use of these bonds would be a one-time measure, applied in the first year of the biennium to replace SEG funds in the state highway program. In the second year, SEG funds would replace the bonds in that program, largely made possible by the other general fund measures, which are discussed in more detail below. The one-time use of general fund-supported bonds may be justified, independent of the other measures, on the grounds that the bonds would allow the general fund to continue to "repay"

the transportation fund for amounts that were transferred to the general fund over the past several biennia. Furthermore, the amount of bonds authorized could be increased, in addition to or in place of the other general fund measures discussed in this paper, to hold the transportation fund harmless for past transfers. For a further discussion of this issue, including a discussion of these alternatives, see LFB Issue Paper #665 on the state highway rehabilitation program.

10. In addition to the use of general fund-supported bonds, the bill includes two other provisions involving the use of general fund revenues for transportation purposes. Briefly, one provision would involve substituting general fund appropriations for transportation fund appropriations for making mass transit aid payments. In 2012-13, the first year of this shift, the general fund appropriations would total $106,478,300, replacing an equal amount of SEG appropriations. The other provision would require the deposit of a portion of the sales and use tax on motor vehicles and motor vehicle parts and accessories into the transportation fund instead of, under current law, into the general fund. In 2012-13, the first year of the change, the amount transferred would be 7.5% of these collections, capped at a maximum of $35,127,000. After the 2011-13 biennium, the percentage would grow to 10.0% in 2013-14 and 15.0% in 2014-15, and would grow by an additional five percentage points each subsequent year until reaching 50.0% in 2021-22. Based on estimated 2012-13 sales tax collections, the 50% transfer would be $292 million in 2021-22. Growth in total sales (due to inflation and real growth) would increase the transfer above that amount.

11. Unlike the use of general fund-supported bonds, as described above, the other two provisions involving the use of general fund revenues for transportation programs would have an ongoing impact. Some have justified this shift on the grounds that transportation fund revenues were used for general fund purposes over the past several biennia. However, it should be noted that if these provisions are unchanged, the loss to the transportation fund due to these transfers would be fully "repaid" in the second year of the 2013-15 biennium, and the balance between the two funds would shift, to become an ongoing, and increasing, loss to the general fund. The following points provide various arguments for and against the use of general fund revenues, as proposed in these two provisions.

12. Unlike for most other state-supported, transportation programs, mass transit user fees (fares) are collected at the local level and, therefore, are not deposited in the state transportation fund. To the extent that the transportation fund is primarily reserved for programs with a direct relationship to the user fees that are deposited in the fund, a case could be made that the fund should not be the source of mass transit aids. The switch from the transportation fund to the general fund as the source of mass transit aids, as proposed under the bill, would be consistent with that principle.

13. Traditionally, the state has not tied spending on particular programs to the amounts generated from specific users. Rather, all transportation programs have been supported from the transportation fund in the interest of establishing a comprehensive, intermodal transportation system. In some cases, the amount spent for a particular part of the system may exceed the amount of user revenue generated from that system. For instance, under the bill, state funding for the airport improvement program would exceed estimated aeronautical revenues collected by over 70% in each year of the biennium. Likewise, within the state's road and highway network, because of low population and traffic density, some parts of the system cost more to build and maintain than the

amount of road user fees that are generated on those parts. In both cases, costs in excess of associated user revenues are, in effect, paid by users of other parts of the system. The proposal to remove mass transit aid from this financing system may be justified on the grounds outlined in the previous point, but mass transit is only one of various parts of the overall transportation system that are not fully covered by direct user fees.

14. Regardless of whether or not one takes the position that the transportation system principle justifies continued use of transportation fund revenue for mass transit aid, several other arguments have been made in support of using highway user fees for mass transit costs. First, the presence of a reliable mass transit system may reduce road congestion by providing a transit option for persons who would otherwise drive in a personal vehicle. Since those who continue to drive in a personal vehicle benefit from this reduced congestion, it may be reasonable to levy a fee on those drivers to pay for that benefit. Second, while the construction of freeways has made travel faster and easier for those who have access to personal vehicles, it may have had a detrimental effect on urban mass transit systems by reducing the density of residential and commercial development. Providing mass transit services in lower density urban and suburban areas is more costly on a per-rider basis, thus necessitating a non-fare subsidy to continue serving persons who are transit dependent. Consequently, the payment of a portion of the highway user fees to support mass transit systems may be appropriate to compensate for these negative effects.

15. The mass transit assistance program began in 1973 and has been funded from the segregated transportation fund, or its predecessor fund, since 1976-77. Concerns have been raised that funding the state's mass transit operating assistance program from the general fund could make if more difficult for the program to receive consistent funding increases in the future. This stems from concerns that the state's general fund has been under consistent budget stress in recent years and that the mass transit operating assistance program would have a more difficult time competing for funding increases given the continued, significant funding priorities facing the general fund. Recent funding changes for two local aid programs may illustrate this concern. The mass transit operating assistance program has received funding increases in eight of the past ten years while funded from the transportation fund. Overall program funding increased by 22.3% over the ten-year period. Comparatively, funding for the state's county and municipal aid program (previously called the shared revenue program), provided through the general fund, has decreased by 5.9% over the same ten-year period.

16. The use of a portion of the motor fuel tax for mass transit assistance has been federal policy since the passage of the Surface Transportation Assistance Act of 1982. Currently, 2.86 cents per gallon of the 18.4 cent-per-gallon federal tax on gasoline (15.5%), as well as 2.86 cents of the 24.4 cent-per gallon tax on diesel fuel (11.7%) is deposited in the federal mass transit account, for payment of federal mass transit aid. Mass transit funding under the bill in 2012-13 is equivalent to 3.36 cents per gallon at the state level, or 10.9% of total motor fuel tax collections. On a total revenue basis, mass transit funding would equal 6.2% of the gross revenues for 2012-13.

17. When legislative bodies face decisions like the proposed conversion of mass transit funding from the segregated, transportation fund to the general fund, questions often arise as to how other states have chosen to fund their transit assistance programs. However, such a comparison may not be particularly meaningful because states tend to differ in the composition of revenues

deposited to their transportation and general funds. According to the American Association of State Highway and Transportation Officials (AASHTO) 2010 Survey of State Funding for Public Transportation, 20 states provide some level of transit funding from their transportation fund. However, as a comparison to Wisconsin, this is less telling than it would seem because some of those states include auto-related sales tax revenues and other revenues in their transportation fund that are currently deposited to the general fund in Wisconsin. In addition, while the AASHTO survey indicates that 13 states primarily use general fund revenues to fund transit, the general fund in some of those states includes revenues from motor vehicle fuel-related sales taxes. For example, while the AASHTO survey indicates that Illinois provides general fund assistance for transit, the Illinois general fund receives revenues from a 6.25% sales tax on motor vehicle fuel (currently equivalent to 22.6 cents per gallon), which is in addition to the state's excise tax on motor vehicle fuel.

18. All but four states (Alabama, Hawaii, Nevada, and Utah) provide either operating or capital assistance to their local transit systems, with most states providing both types of funding. Annual state funding levels range from less than $1 million in smaller states to nearly $3.0 billion in the more heavily populated states. Also, in addition to state funding, several states authorize counties, municipalities, or transit authorities to impose regional general sales and use taxes to assist with the costs of transit capital and operating expenses. From a policy perspective, a dedicated local sales tax authority for transit is similar to a user fee in that the population that benefits the most from having viable transit service as part of their region's overall transportation system would be paying for that service from a revenue source generated in the region.

19. For alternatives related to the amount and source of funding for mass transit aid, see LFB Issue Paper #651.

20. The transfer of a portion of the sales and use tax on motor vehicles, and motor vehicle parts and accessories, has been justified by some on the grounds of its relationship to transportation. That is, the sales tax on these items could be seen as a separate transportation user fee that should be reserved for transportation purposes.

21. A counter argument could be made that the state's sales tax on all items is levied for the purpose of supporting the general operations of the state, regardless of what type of item is the subject of the sale. In other words, the fact that the sales tax is collected on the sale of motor vehicles does not make the tax a user fee. From this perspective, a case could be made that if the state's existing user fees for road and highway users (the motor fuel tax and the vehicle registration fees) are inadequate to support current transportation programs, then the amounts of those taxes and fees should be increased or the funding for those programs should be decreased.

22. The use of general sales tax proceeds for transportation may also be justified on the grounds that the state's transportation system contributes to the health of the overall economy. Furthermore, since, as noted above, some modes or parts of the system do not generate enough user fees to cover costs, the infusion of sales tax revenue would relieve some of the burden on other user fees to pay those excess costs.

23. As noted above, the percentage of motor vehicle-related sales tax that is deposited in

the transportation fund would grow each year, under the bill, until reaching 50% in 2021-22. During this phase-in period, transportation fund revenue would expand each year, even if motor vehicle and related sales do not increase (and provided, also, that sales do not fall by more than 5%). This growth could help alleviate the stagnation in transportation fund revenues, discussed above, providing a source of new revenues to increase funding for transportation programs. In contrast, the phase-in of the sales tax transfer would create a ten-year period in which the general fund would have an automatic structural deficit (technically, an advance commitment of general fund revenues).

24. The following table shows the percentage of motor vehicle-related sales tax revenue that would be deposited in the transportation fund and an estimate of the dollar amount that would be deposited, based on the assumption that the sale of motor vehicles and motor vehicle parts and accessories would remain at the same level as in 2012-13 (estimated by the Department of Revenue at $584 million). Although the bill would establish the initial percentage to be deposited in the transportation fund at 7.5%, that amount would be capped at $35.1 million (actually 6.0% of estimated collections). In subsequent years, there would be no such cap. The amount deposited in the transportation fund would increase by $23.3 million in 2013-14 from the 2012-13 level, and by an additional $29.2 million annually thereafter, representing the annual "structural" loss to the general fund and the revenue growth to the transportation fund during the phase-in period.

Percent and Amount of Sales Tax Revenue Deposited in the Transportation Fund, Based on 2012-13 Estimated Collections ($ in Millions)

Fiscal Year	Percentage Deposited	Amount Deposited
2012-13	7.5%	$35.1*
2013-14	10.0	58.4
2014-15	15.0	87.6
2015-16	20.0	116.8
2016-17	25.0	146.0
2017-18	30.0	175.2
2018-19	35.0	204.4
2019-20	40.0	233.6
2020-21	45.0	262.8
2021-22	50.0	292.0

* Amount shown represents the capped amount, instead of the percentage, deposited in the transportation fund.

25. The transfer of a portion of the sales tax on motor vehicles and motor vehicle parts and accessories could create a precedent for the transfer of sales tax revenue on other items to other funds. For instance, the sales tax on recreational vehicles or hunting and fishing equipment could be dedicated to the related conservation programs, or sales taxes collected on certain foods and products that have a detrimental effect on health could be dedicated to related health programs. Dedicating significant amounts of sales tax revenues to specific agencies or programs would erode the Legislature's discretion on how best to allocate general fund revenues among various agencies and programs.

26. States use a wide variety of approaches to funding transportation programs in general, and state highway systems in particular. Like Wisconsin, all states typically rely heavily on motor fuel taxes and vehicle registration fees. As proposed under the bill, many states either make general fund appropriations directly for transportation programs or allocate some sales tax revenue to transportation or highway funds.

27. True comparisons between states, however, are complicated by a variety of factors. As an example, some states, such as Illinois, levy a general fund sales tax (in addition to an excise tax) on motor fuel. This general fund revenue may, in turn, be used for transportation purposes in those states. However, the use of general fund revenues for transportation in this case may not be significantly different than Wisconsin, which has a higher excise tax, but no sales tax, on motor fuel. In other words, in one state (like Illinois), a portion of the motor fuel tax paid by the consumer is considered a general fund revenue, but in Wisconsin the full amount is considered to be a transportation fund revenue.

28. LFB Issue Paper #644 provides additional discussion related to the proposal to deposit vehicle-related sales tax revenue in the transportation fund. Included in that paper is a discussion of several administrative issues that the Committee may wish to consider concerning this proposal, including the volatility of such sales, and the difficulty in estimating the amounts to be transferred.

29. The other two provisions involving the use of other funds for transportation programs are a proposed transfer from the petroleum inspection fund and the substitution of the $9 vehicle environmental impact fee, levied upon the application for a vehicle title, with an increase to the standard vehicle title fee of an equal amount. In both cases, other funds lose revenues that otherwise could be used for programs that are supported from those funds, and the transportation fund gains revenue.

30. The proposed transfer from the petroleum inspection fund would be $19.5 million annually. This transfer would be in addition to an ongoing transfer from that fund, established in 2004-05, of $6.3 million annually. Consequently, the total biennial transfer, including the ongoing and proposed additional amounts, would be $51.5 million. Similar, additional transfers from the petroleum inspection fund were also made in both years of the 2009-11 biennium, of $10.0 million in 2009-10 and $17.8 million in 2010-11.

31. The vehicle title fee provision does not involve a transfer from another fund to the transportation fund, although the proposal has the same effect. By eliminating the current $9 environmental impact fee on vehicle titles and substituting an equal increase to the standard title fee, the environmental fund loses $10.5 million annually and the transportation fund gains a corresponding amount.

32. These two provisions have been justified by some on the grounds that the petroleum inspection fee (2.0 cents per gallon on petroleum products, including home heating oil) and the environmental impact fee are like transportation user fees, and so the revenues generated should be reserved for transportation. A case could also be made, however, that in both cases, the fees were established for specific purposes related to mitigation of the environmental impact of the use of

motor fuel and vehicles on soil and ground water, not for the construction and maintenance of transportation systems. In both cases, current programs funded with these revenues would be reduced or eliminated, effectively relieving motorists of the responsibility for paying for the cost of environmental impacts of their travel.

33. Subsequent LFB issue papers will provide a discussion of the issues related to the environmental management account of the environmental fund (the current account receiving the environmental impact fee on vehicle titles) and the petroleum environmental cleanup fund award program (the primary use of the petroleum inspection fund). LFB Issue Paper #645 provides a discussion of the proposed increase to the standard vehicle title fee. Decisions on these items will affect both of the other funds, as well as the available funding for transportation programs.

SUMMARY

This paper provides a general discussion of several proposals that would involve the use of revenues from other funds (the general fund, the petroleum inspection fund, and the environmental fund) for transportation purposes. These provisions may be justified on the grounds that revenues generated from traditional transportation user fees have generally fallen or grown slowly over the past several years, trends that are expected to continue. The infusion of other revenue sources can provide additional funding for transportation programs without raising taxes or fees.

Arguments against using those other revenues could be made on the grounds that the taxes and fees in the affected funds, although nominally related to transportation, were established for other purposes that would be negatively affected by these proposals. In particular, the ongoing dedication of general fund revenue to transportation programs would constrain the state's flexibility with respect to establishing the budget for current general fund programs.

Although various arguments can be made for or against these proposals, the decision on which fund's revenues to use for particular programs frequently rests more on the relative importance that one places on other uses of the funds. For instance, many advocates of increased spending for transportation infrastructure are likely to make the case that the responsibility for funding a program like mass transit aid belongs with the general fund, and that motor vehicle sales tax revenue should be treated as a user tax, rather than a general tax. In both cases, those decisions increase available funding for transportation infrastructure. Likewise, advocates of a particular general fund program, such as education aid or medical assistance, or advocates of tax rate reductions, may take the opposite position because that would retain the availability of general fund revenues for those purposes.

For all of these items, the Committee's decisions will affect the funding available for various transportation programs, as well as programs in the other affected funds. Consequently, it may be prudent to make these decisions with a consideration of these multi-faceted impacts.

Prepared by: Jon Dyck and Al Runde

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 24, 2011 Joint Committee on Finance Paper #644

Deposit Sales and Use Tax Revenue Generated from Sales of Motor Vehicles and Motor Vehicle Parts and Accessories into the Transportation Fund (General Fund Taxes -- Sales and Excise Taxes and DOT -- Transportation Finance)

[LFB 2011-13 Budget Summary: Page 195, #1 and Page 429, #4]

CURRENT LAW

Under current law, Wisconsin generally imposes a sales and use tax at a rate of 5% on sales of tangible personal property and selectively imposes the tax on certain enumerated services. All revenues generated from the tax accrue to the general fund. Motor vehicles and motor vehicle parts and accessories are generally subject to the tax. Sales and use tax revenues are currently estimated at $4,350 million in 2011-12 and $4,485 million in 2012-13.

GOVERNOR

Deposit a specified percentage of sales and use tax revenues generated from sales of motor vehicles and motor vehicle parts and accessories into the transportation fund. Under the Governor's proposal, beginning July 1, 2012, the Department of Revenue (DOR) would have to annually estimate the amount of sales tax revenue generated from the sale, lease, or use of motor vehicles and motor vehicle parts and accessories. The proposed percentage of sales tax generated by such sales to be deposited into the transportation fund would increase over a ten-year period, from 7.5% to 50% of such revenues, in the following manner:

a. 7.5% of revenues for 2012-13, but not more than $35,127,000;
b. 10% of revenues for 2013-14;
c. 15% of revenues for 2014-15;
d. 20% of revenues for 2015-16;
e. 25% of revenues for 2016-17;
f. 30% of revenues for 2017-18;
g. 35% of revenues for 2018-19;
h. 40% of revenues for 2019-20;
i. 45% of revenues for 2020-21; and
j. 50% of revenues for 2021-22 and for each year thereafter.

DOR estimates total sales tax revenues generated from sales and leases of motor vehicles and motor vehicle parts and accessories for 2012-13 at $584 million. The Department estimates that the proposal would deposit $35,127,000 GPR into the transportation fund in 2012-13. In 2012-13 dollars, it is estimated that sales tax revenues would be deposited into the transportation fund in the amounts of $58 million in 2013-14 and $88 million in 2014-15, and would increase to $292 million in 2021-22.

DISCUSSION POINTS

1. Under current law, all revenues generated by the state sales and use tax, as well as the individual income, corporate income, excise, public utility, insurance company, and miscellaneous taxes, accrue to the general fund. General fund tax revenues are estimated at $13,164.3 million in 2011-12 and at $13,690.2 million in 2012-13. The Governor's proposal to deposit a portion of sales tax revenue to the transportation fund would represent the only earmarking of any general fund tax for a specific purpose.

2. The Governor's proposal specifies that DOR would be responsible for estimating the amount of revenue generated by the sales tax on motor vehicles and motor vehicle parts and accessories. Sales and use tax returns filed by taxpayers do not identify the type of taxable good or service for which the tax is paid. Therefore, sales tax revenues from specific types of tangible personal property and services must be estimated. The proposal does not provide a definition for motor vehicles or motor vehicle parts and accessories, nor does it specify how the Department must estimate revenue generated from such sales.

According to DOR, the Department's estimate would reflect the amount of taxable sales reported by Wisconsin sales tax filers who have identified themselves as primarily engaged in businesses related to selling motor vehicles and motor vehicle parts and accessories.

DOR's estimate would not reflect product specific sales and leases of motor vehicle parts and accessories. Consequently, the estimate would include sales of taxable items and services other than motor vehicles and motor vehicle parts and accessories if the items were sold by businesses that identify themselves as primarily engaged in such retail activities. An example of this would be repair services performed by motor vehicle dealerships. Conversely, if a business did not identify itself as primarily engaged in selling or leasing motor vehicles or motor vehicle parts and accessories, such sales would be omitted from the estimate. For example, sales of motor vehicle parts and accessories by department stores, hardware stores, and automotive repair and maintenance shops would not be included in the estimate.

3. Wisconsin sales tax filers are categorized by their primary retail activity according to categories defined in the U.S. Census Bureau's North American Industry Classification System (NAICS). According to DOR, data compiled through sales tax returns from these filers represents the best available indication of the amount of taxable retail sales by each type of business in Wisconsin, but the reliability is limited. DOR determines the business classifications based on a brief description of the seller's principal business and merchandise that is part of their application for a seller's permit. In the case of a business with a variety of areas or with products that have changed over a period of time, the coding may not accurately reflect the extent and nature of sales by the business. According to DOR, the estimate would include the types of business classifications shown in Table 1.

TABLE 1

NAICS Classification Codes for DOR's Estimate

NAICS	Establishment's Primary Retail Activity
4411	New and used automobiles, light trucks, sport utility vehicles, passenger vans, and cargo vans, as well as sales of such new vehicles in combination with repair services and selling replacement parts and services.
441210	New and used recreational vehicles (RVs), as well as new RV sales in combination with repair services and selling replacement parts and accessories.
441221	New and used motorcycles, motor scooters, motorbikes, mopeds, off-road all-terrain vehicles, and personal watercraft, as well as sales of such new vehicles in combination with repair services and selling replacement parts and accessories.
4413	Automotive parts, accessories, and tire stores.
5321	Renting or leasing, without drivers, passenger cars, trucks, truck tractors, buses, semitrailers, utility trailers, or RVs.
N/A	Occasional sales of automobiles (generally private party transactions), for which the sales tax is paid to the Department of Transportation when registering a vehicle with the state, and subsequently remitted to DOR

4. As noted, the proposal does not require DOR to use this methodology; however, the Department has indicated that this would be its method of estimation. An amendment requiring DOR to estimate sales tax revenues generated from sales and leases of motor vehicles and motor vehicle parts and accessories using this methodology would remove uncertainty about how the Department would generate the estimates. Altering methods of estimation can produce significantly different estimates. For example, when the budget bill was introduced, the Department of Administration (DOA) estimated that this provision would transfer $47.2 million to the transportation fund in 2013-14, implying an underlying sales tax base of $472 million. In the estimate generated by DOR, the sales tax base for 2013-14 was estimated at $607 million, almost 30% higher than DOA's estimate. Given the uncertain outcome that differing methods of estimation may produce, an amendment requiring that DOR use this specific method for estimating

revenues to be deposited in the transportation fund would mitigate the uncertainty in how the estimate would be derived [Alternative #2].

5. The proposal does not specify when DOR would estimate the amount of sales and use tax revenue generated by sales of motor vehicles and motor vehicle parts and accessories. According to DOR, the Department would project the amount of sales tax revenue generated on sales of motor vehicles and motor vehicle parts and accessories on November of each even-numbered year for that current fiscal year and for each year in the upcoming biennium. On June 30th of each fiscal year, DOR would reestimate the amount of sales tax revenues collected during that fiscal year based on sales tax returns received by the Department.

6. Based on DOR's anticipated schedule for estimating these revenues, estimates would be available at the beginning of the budget process and could be included in the general fund condition statement delivered to the Legislature. It should be noted that sales of new and used motor vehicles, leases of motor vehicles, and sales of motor vehicle parts and accessories experience significant volatility. Table 2 below shows U.S. personal consumption expenditures for these items since 2000.

TABLE 2

Consumer Expenditures for Motor Vehicles, Parts, and Leases

Year	Expenditures ($ in Billions)	Percent Change
2000	$404.3	
2001	423.2	4.7%
2002	435.1	2.8
2003	430.4	-1.1
2004	432.5	0.5
2005	439.1	1.5
2006	431.3	-1.8
2007	438.6	1.7
2008	379.4	-13.5
2009	351.5	-7.3
2010	375.5	6.8

Source: IHS Global Insight, Inc.

As shown in Table 2, national consumer expenditures for these items declined from a peak of $439.1 billion in 2005 to a low of $351.5 billion in 2009, a decrease of nearly 20%. Year-over-year growth rates ranged from a low of -13.5% in 2008 to a high of 6.8% in 2010. Data from the 1980s and 1990s also show significant volatility in such auto-related expenditures, although the peak to trough declines during the recession years in those decades were not as extreme as the 20% drop in the more recent downturn. In comparison, total sales tax collections show considerably less volatility. Since the tax was first imposed in 1962, there have been only two years when revenues decreased from the prior year (fiscal years 2008-09 and 2009-10). In the past decade, annual growth rates for total sales tax collections ranged from a low of -4.3% in

2008-09 to a high of 4.3% in 2003-04. In the 1980s and 1990s, the annual growth rates generally ranged from 4% to 8%. The only year with lower growth was 1990-91, when the increase was 2.2%. Significantly higher growth rates were seen after the tax rate was increased to 5% in 1982.

Volatility in the amount that would be deposited from sales of these items and services would create an additional level of uncertainty in budgeting for general fund and transportation fund expenditures. If the final amount deposited into the transportation fund is higher than originally estimated, there may be an unanticipated shortfall in the general fund. Conversely, if the amount deposited into the transportation fund at the end of each year is lower than originally estimated, this may create a shortfall in the transportation fund. Other states have dedicated a portion of estimated motor vehicle related sales tax revenues for transportation purposes in a manner that mitigates volatility and uncertainty.

7. For example, Utah dedicates a portion of sales and use tax revenue generated from motor vehicle-related sales for transportation purposes as a percentage of total sales tax revenue. Utah declares in statute that approximately 17% of sales and use tax revenues in that state are generated from vehicle and vehicle-related products. Of this amount, their Legislature earmarks 8.3% (temporarily reduced to 1.93% for 2010-11) of all sales and use tax revenues to Utah's Transportation Investment Fund, which represents approximately half of that state's estimated sales tax revenues generated from sales of vehicles and vehicle-related products. If Wisconsin were to dedicate a specific percentage of all sales and use tax revenue to the transportation fund, the earmarked sales tax revenue would grow over time at a less volatile rate than under the proposal [Alternative #3]. The amount of revenues deposited into the transportation fund would still vary and create uncertainty in budgeting, but should generally be less volatile than as provided under the Governor's proposal.

8. According to the administration's testimony to the Joint Committee on Finance, general fund revenues have been proposed for use in support of transportation expenditures to, in part, reimburse the transportation fund for monies that were transferred to the general fund in prior biennia. The Legislature could accomplish the Governor's intent to reimburse the transportation fund with general fund revenues by, instead, depositing $35,127,000 (or some other amount) into the fund in 2012-13 and eliminating the requirement that DOR estimate in each year the amount of sales tax revenue generated by sales of motor vehicles and motor vehicle parts and accessories [Alternative #4]. DOR estimates that such sales represent approximately 13% of sales and use tax revenues, which equates to approximately $584 million in 2012-13. In subsequent budgets, the Legislature could choose to increase or decrease the amount of these sales tax revenues deposited in the transportation fund and specify that the funds deposited into the transportation fund are generated from the sales and use tax on sales and leases of motor vehicles and motor vehicle parts and accessories.

9. The amounts and percentages of sales and use tax revenues dedicated to the transportation fund used in the alternatives below are based on the numbers included in the Governor's proposal. The Committee could dedicate some other percentage or a specific amount of revenues to the transportation fund. The Committee could also choose to change the rate of growth over time by altering either the percentage of motor vehicle-related revenues dedicated to the fund, or by specifying a growth rate for an amount of revenue dedicated to the fund.

ALTERNATIVES

1. Approve the Governor's proposal.

2. Modify the Governor's proposal to specify that the Department of Revenue must estimate sales and use tax revenues generated from Wisconsin sales tax filers whose primary retail activity is defined under NAICS 4411, 441210, 441221, 4413, 5321, and use tax revenues from the occasional sales of automobiles paid to the Department of Transportation when registering a vehicle in the state. Specify that the share of this estimate deposited into the transportation fund would progressively increase over ten years in the same manner as provided under the bill.

3. Modify the Governor's proposal to declare that the Legislature finds that an estimated 13% of state sales and use tax revenues are generated from sales and leases of motor vehicles and sales of motor vehicle parts and accessories. Deposit a percentage of sales tax revenues generated by such sales into the transportation fund, increasing from 7.5% to 50% over a ten-year period, in the following manner:

a. 7.5% of revenues for 2012-13, but not more than $35,127,000;
b. 10% of revenues for 2013-14;
c. 15% of revenues for 2014-15;
d. 20% of revenues for 2015-16;
e. 25% of revenues for 2016-17;
f. 30% of revenues for 2017-18;
g. 35% of revenues for 2018-19;
h. 40% of revenues for 2019-20;
i. 45% of revenues for 2020-21; and
j. 50% of revenues for 2021-22 and for each year thereafter.

4. Delete the Governor's proposal and instead transfer $35,127,000 from the general fund into the transportation fund in 2012-13. Specify that funding for this transfer is from sales and use tax revenues generated from sales and leases of motor vehicles and sales of motor vehicle parts and accessories.

5. Delete the Governor's proposal.

ALT 5	**Change to Bill** Revenue
GPR	$35,127,000
SEG	-35,127,000
Total	$0

Prepared by: Sean Moran