FOCUS

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Balloon squeezing: Transportation finance and the state budget

Wisconsin's transportation finance woes are long-standing. If past is prologue, the status quo—rising debt costs and project delays—will continue. However, the governor (R) and some legislative leaders (R) have also expressed interest in tapping income and sales taxes, the majority of which now goes to schools and Medicaid, to fund transportation. This could create a new set of larger problems.

Imagine an over-sized balloon. Squeeze it or punch it, and it bulges out somewhere else, often unpredictably.

As odd as it may seem, this often describes Wisconsin's fiscal decision-making in recent decades: State budget problems are sometimes ignored or solved temporarily (the squeeze). But longer term, the result is new problems created or old ones exacerbated (the bulge).

Fund transfers go both ways

The state's decades-old transportation finance problems are a case in point. During the prior decade, state spending got ahead of revenues, and Gov. James Doyle (D) moved $1.4 billion (b) from the segregated transportation fund to the general fund to erase a deficit. Increased highway bonding replaced the transferred funds. Debt costs rose.

As gallon sales of gasoline stagnated in recent years, transportation fund revenue grew little, if at all. Following his predecessor's lead, Gov. Scott Walker (R) borrowed to pay for road projects. Debt service costs again grew, eating into monies available for transportation projects.

The governor also began using general fund income, sales, and excise taxes that normally go to such programs as education, health, and property tax relief to subsidize transportation. It was the prior governor's fund transfer in reverse. Since 2003, $2.0b in general fund taxes have been shifted to the transportation fund or, more often, used to pay off highway bonds.

Today, the fallout from years of increased transportation borrowing is that over 20 cents of every gas tax or registration fee dollar is diverted from road projects to pay off debt. And that only adds to the challenge of trying to repair and rebuild dated infrastructure with an outdated revenue system.

Long-term vs. short-term fix

Frustrated by increasing amounts of debt and construction delays, several Republican legislative leaders have said all options are on the table, including new revenues. They seek a "sustainable" solution to Wisconsin's transportation finance dilemma.

Until recent months, Gov. Walker said he could support such a change—with an important proviso: Increased transportation taxes or fees would have to be offset by other tax cuts so as not to increase the state's overall tax burden.

The governor has since backed off this position. However, his pending budget contains tax cuts sufficient to balance a $300 million (m) increase in annual transportation revenues, should that compromise be revisited.

With legislative review of the gubernatorial budget well underway, ideas for bringing transportation spending and revenues back into sync are circulating in the Capitol. But the likelihood of a long-term solution remains questionable when the alternative is so easy: Turn to the general fund, tap income and sales taxes for transportation, and wait for 2019. The governor and some GOP legislators have already voiced support.

Squeeze, bulge . . . pop?

Breaching the supposed wall between the two funds is not new; Gov. Walker first took $160m from the general fund in 2011-13.

What is different now is the size of the transportation shortfall—almost $1b according to the Legislative Fiscal Bureau—and the probability that existing pressures will mount. Road construction and debt service costs continue to rise, while road conditions and the purchasing power of gas taxes and vehicle fees erode.

If unprecedented draws on current or new general fund revenues are ahead, the possible "ripple" effects prompt questions:

■ How are school aids and Medicaid, the two programs accounting for more than 50% of general fund spending, affected? Add property tax credits, higher education, prisons, and local government aids, which together increase that percentage to 80%, and the questions of impact multiply.

■ Medicaid poses a particularly difficult question. The state has had limited success in restraining its growth. Until

2003, its claim on the general fund was about 10%; it is now 18%, a near doubling in 15 years.

If Medicaid is already "crowding out" other general fund programs, most notably education, does increased use of general fund taxes for transportation magnify both the Medicaid cost-control problem and impacts on other programs?

■ At some point, a larger question could be asked: If education and health must compete with transportation for money, why have separate funds? Should all tax revenue be collected in one "pot," and all state programs compete for funding on a level legislative-playing field?

■ For those seeing general fund taxes as a panacea to transportation finance woes, history offers a hitch. Current transportation revenues grow little, if at all, but they are reliable. Income and sales taxes move with economic cycles. During 2008-10, average annual changes in income (-4.8%) and sales (-3.9%) taxes were negative. Between 2010 and 2013, the opposite was true (7.2% and 3.8%).

■ A long-term trend suggests another question. Between 1990 and 2000, general fund taxes grew an average of 6.8% per year. From 2010 on (after the last recession), annual growth averaged 3.1%, and in only one year did it exceed 5%. The question is obvious to all in government: If, for whatever reason—economic or political—growth in tax collections is slowing, is there a need to rethink state fiscal policy and budget practices well beyond highways?

Immediate problem

Should use of general fund taxes be expanded to rescue the transportation fund, the pending state budget has a problem. Proposed general fund spending already exceeds revenue by $155m in 2018 and by $215m in 2019. Transportation finance fix or not, the next governor and legislature could face shortfalls that would further complicate future transportation decisions. ☐

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Capitol Notes

■ *Democratic legislative leaders are asking GOP counterparts to create an eight-member Joint Legislative Committee on Transportation Finance. The panel would develop a "long-term transportation funding plan in a public and transparent manner." Rep. Peter Barca (D-Kenosha) said that without such a move, the pending state budget would fail to craft a "long-term sustainable transportation funding mechanism." Senate Majority Leader Scott Fitzgerald replied that he plans to work on transportation finance through "normal channels."*

■ *Following a Canadian decision that left some Wisconsin dairy farmers temporarily without buyers for their milk, the Wisconsin Housing and Economic Development Authority (WHEDA) will provide more favorable loan guarantees to dairy farmers and processors, including better repayment and collateral terms and increased guarantees at lower fees.*

■ *Anderson Economic Group released its annual report on state-local business tax burdens across the U.S. In 2015, businesses paid $627 billion (b) in state and local taxes. Property and sales taxes comprised about 60% of the total; corporate income taxes, about 9%. The lowest business tax burdens were in Oklahoma, Oregon, North Carolina, South Dakota, and Indiana. The highest were in North Dakota, Wyoming, Maine, Vermont, and Rhode Island* (Source: State Tax Notes).

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