FOCUS
09.30.2016 • No. 19

Transportation financing (II): Debt exacerbates state challenge

For years, Wisconsin has had a problem matching transportation "wants" with available revenues. Gas taxes and vehicle registration fees, the main sources of transportation fund support, are not growing. Meanwhile, past and current bonding for highways has led to a five-fold increase in associated debt service. These debt costs are putting further pressure on both the transportation and general funds.

One of the most difficult questions facing Gov. Scott Walker (R) and Republican legislative leaders as work begins on the 2017-19 state budget also dogged them during 2015 budget deliberations: How does Wisconsin pay to repair or replace its aging highways, particularly in the urban southeast, with gas taxes and vehicle fees that have been stagnant for years?

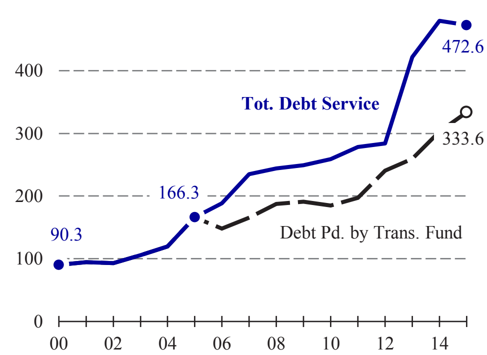
Background to an old problem

Reasons for sluggish revenues are generally understood: more energy-efficient vehicles that use less gas; young millennials and retiring boomers who drive less; and the "flat" 30.9 cents/gallon gas tax and $75 per vehicle registration fee that lose value to inflation. By contrast, state income and sales taxes automatically capture new earnings and purchases, virtually guaranteeing the state new revenue every year.

Other aspects of the transportation finance puzzle are less understood. One is the segregated nature of the Department of Transportation's (DOT) fund; that is, it operates with earmarked fuel taxes and registration fees, until recently without the benefit of state general fund taxes, such as those on income and sales.

The problem is that this segregated fund was repeatedly used in the last decade to help erase general fund shortfalls. Transfers began in 2001-02 and occurred every year through 2010-11. A total of about $1.4 billion (b) was removed from the transportation fund.

Transportation Debt Costs Grow
Total (Blue) and Trans.-Fund Supported (Black), $m



New complication: Debt

Under the prior governor, these transfers led to a surge in bonding to replace the lost funds. Under the present governor, borrowing continued to increase in order to supplement sagging gas taxes and fees. Debt service costs rose from $90.3 million (m) in fiscal 2000 to $472.6m in 2015 (see chart).

The most problematic part of the growing debt is the significant amount that was repaid with transportation revenues. As the chart (dashed line) indicates, that figure doubled in 10 years from $166.3m in 2005 to $333.6m last year.

The squeeze that debt service puts on the DOT fund is best understood when these expenses are compared to transportation revenues available to cover the costs. Debt service siphoned $90.3m, or 7.1% of state revenues, from the fund in 2000. That figure increased to 11.2% by 2005 and remained at about that level through 2011. Since then, the percentage has grown, reaching 17.4% in 2015.

A recent letter from Republican Assembly leaders to the governor shows that, under DOT's pending 2017-19 budget request, these percentages will continue to rise, reaching 22.9% of revenues by mid-2019.

A national comparison

For those trying to grasp the magnitude and meaning of transportation fund borrowing, the technical terms and figures mentioned here can be daunting.

The more familiar issue of the federal budget and national debt provides context. Unlike Wisconsin, the federal government is not required to balance its budget, and accumulated U.S. debt is approaching $20 trillion. According to the nonpartisan Congressional Budget Office (CBO), interest expenses on this debt currently equal about 6.6% of federal spending and 7.7% of revenues. The difference between the two is due to deficit spending.

To those interested in the long-term dynamics of federal debt and interest costs, the Wisconsin experience is instructive. Debt service claims on state transportation revenues are already double or triple those made on U.S. revenues or spending. Wisconsin's debt service costs will exceed 22% of state transportation fund revenues next year. CBO estimates that federal debt costs will not reach similar levels relative to revenues or expenditures until the 2040s. The "ripple" effects that will occur later in Washington are happening in Madison.

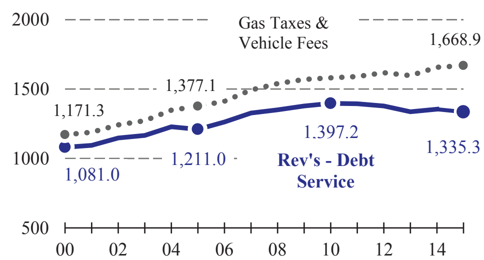
DOT revenue squeeze

The adverse effects of inflation, high-mileage vehicles, and generational change on transportation revenues have received attention. How rising debt expenses are also affecting revenues has not.

Since these costs are partly repaid with transportation revenues (see chart, p. 1), it is worth examining how they are affecting the two principal sources of transportation income—gas taxes and registration fees—available for construction and repair of state and local roads.

The chart above shows total transportation revenues from the two sources

Debt Costs Cut Available Trans. Revenues
Net (Blue) and Tot. Gas + Veh. Fees (Black), $m



(dotted line). It also reveals how the net totals are effectively reduced by debt service (blue line). In 2000, the difference between the two was $90m ($1,171.3m less $1,081.0). Last year, the difference had more than tripled to $333.6m ($1,668.9m - 1,335.3m). That gap represented a 21% drop in revenues available to fund transportation projects.

Another squeeze

During 2002-11, the transportation fund propped up the general fund; now it's the reverse. A small portion of general fund taxes (0.25%, or about $36m) are earmarked for transportation. The general fund also pays part of transportation debt service—$139m last year. These subsidies raise two questions: Is the transportation finance problem actually understated? And, what does this mean long-term for education, health care, and county/municipal aids paid with general fund taxes? ☐

wistax
Wisconsin Taxpayers Alliance
401 North Lawn Avenue • Madison, WI 53704-5033
608.241.9789 • www.wistax.org

Address Service Requested

Capitol Notes

■ *The Tax Foundation ranked Wisconsin's tax code 39th in the nation for competitiveness, according to a recent report. The report measures more than 100 variables in five different tax categories: corporate, individual income, sales, property, and unemployment insurance.*

Wisconsin received the following rankings in each category: Overall tax climate: #39; corporate tax structure: #3; individual income tax structure: #43; sales tax structure: #7; property tax structure: #34; and unemployment insurance tax structure: #36.

The five states ranked most competitive were Wyoming, South Dakota, Alaska, Florida, and Nevada. Least competitive were Louisiana, Maryland, Connecticut, Rhode Island, and Ohio.

■ *Gov. Scott Walker (R) has created a task force on opioid abuse to deal with heroin and prescription painkiller abuse. The task force is co-chaired by Lt. Gov. Rebecca Kleefisch (R) and Rep. John Nygren (R-Marinette), and includes the commissioner of insurance, as well as the secretaries of corrections, health services, and safety and professional services (or their designees). Attorney General Brad Schimel, Sens. Leah Vukmir (R-Brookfield) and Janet Bewley (D-Mason) and Rep. Jill Billings (D-La Crosse) will also serve, as well as representatives from law enforcement and health care.*

Focus is published by the Wisconsin Taxpayers Alliance, 401 N. Lawn Ave., Madison, WI, 26 times per year. Subscriptions are $44 for one year. WISTAX contributors of $85 or more receive a free copy. Media is encouraged to quote contents, with credit to WISTAX. Electronic reproduction or forwarding is prohibited, unless permission is granted. Send requests to wistax@wistax.org. Per IRS regulations, WISTAX financial statements are available on request.