



Legislative Fiscal Bureau

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TO: Senator Scott Fitzgerald, Senate Chair
Representative Dean Kaufert, Assembly Chair
Joint Committee on Finance

Senator Dan Kapanke, Senate Chair
Representative Mark Gottlieb, Assembly Chair
Joint Legislative Committee on Transportation Needs and Financing

FROM: Bob Lang, Director

SUBJECT: Updated Estimate of Transportation Fund Condition

This memorandum provides an updated estimate of revenues and appropriations in the transportation fund.

At the time that the 2005-07 biennial budget (2005 Act 25) was enacted, the biennium-ending balance in the transportation fund was estimated at \$481,700. Although several subsequent acts have affected transportation fund revenues and appropriations, most of these effects are minor. The exception is 2005 Act 85, which repealed automatic motor fuel tax indexing, effective following the April 1, 2006, adjustment. Although the first adjustment that is affected by Act 85 (April 1, 2007) occurs relatively late in the biennium, the estimated revenue loss of \$5,200,000 is large enough to result in a negative ending balance in the transportation fund.

Independent of legislative changes, however, various economic factors have contributed to a more substantial reduction in transportation fund revenues. The Department of Transportation has completed a comprehensive reestimate of transportation fund revenues for the 2005-07 biennium and this office has reviewed those results. According to the reestimate, total transportation fund revenues are projected to be lower than the Act 25 estimates by \$89,200,400. The following table shows the updated fund condition statement. Following the table is a brief description of the principal factors affecting the new revenue estimates. It should be noted, however, that actions taken by the Department to address the revenue shortfall, together with somewhat more positive collections since those estimates were prepared, would decrease the deficit shown for 2005-06 by an estimated \$20.5 million (these actions are described in more detail in the final section of this

memorandum). The final lines in the table show how these actions would affect the fund condition statement.

Estimated Transportation Fund Condition Statement, 2005-07 Biennium

	<u>2005-06</u>	<u>2006-07</u>
Unappropriated Balance, July 1	\$100,600	-\$34,332,900
Revenues		
Motor Fuel Tax	\$962,793,900	\$993,993,900
Vehicle Registration Fees	452,498,200	458,368,600
Less Revenue Bond Debt Service	-146,882,400	-168,891,600
Driver's License Fees	30,950,300	31,259,700
Miscellaneous Motor Vehicle Fees	23,832,600	24,504,800
Aeronautical Fees and Taxes	10,698,200	10,830,800
Railroad Property Taxes	16,382,400	17,732,700
Motor Carrier Fees	2,000,000	2,000,000
Investment Earnings	11,734,400	12,829,800
Miscellaneous Departmental Revenues	<u>21,091,500</u>	<u>21,091,500</u>
Total Annual Revenues	\$1,385,099,100	\$1,403,720,200
 Total Available	 \$1,385,199,700	 \$1,369,387,300
Appropriations, Reserves, and Fund Transfers		
DOT Appropriations	\$1,053,270,100	\$1,335,627,400
Other Agency Appropriations	23,335,800	24,928,200
Less Estimated Lapses	-1,000,000	-1,000,000
Transfer to General Fund	338,449,000	88,551,000
Compensation and Other Reserves	<u>5,477,700</u>	<u>9,898,800</u>
Net Appropriations, Reserves, and Transfers	\$1,419,532,600	\$1,458,005,400
 Unappropriated Balance, June 30	 -\$34,332,900	 -\$88,618,100
 Impact of Dot Actions and Updated Revenue Estimates	 \$20,514,300	 ---
 Revised Unappropriated Balance	 -\$13,818,600	 -\$68,103,800

Motor Vehicle Fuel Tax Revenues

Over the 2005-07 biennium, motor vehicle fuel tax revenues are projected to be \$31.2 million lower in 2005-06 and \$38.8 million lower in 2006-07 than the amounts included under Act 25. The lower amounts are due primarily to lower fuel consumption projections during the biennium. The following table indicates the projected consumption of taxable gallons of motor fuel compared with the Act 25 amounts.

**Taxable Gallons of Motor Fuel
(Gallons in Millions)**

<u>Fiscal Year</u>	<u>Act 25 Amount</u>	<u>Revised Projection</u>	<u>Difference</u>	<u>Percent Change</u>
2005-06	3,302.9	3,193.7	-109.2	-3.3%
2006-07	3,348.5	3,217.8	-130.7	-3.9

For the biennium, fuel consumption is estimated to be 239.9 million gallons lower than earlier estimates. The reductions are primarily due to actual and forecasted increases in fuel prices. Overall fuel consumption is projected to decrease by 2.3% in 2005-06 compared to 2004-05 and then increase by 0.8% in 2006-07.

The motor fuel tax revenue reductions associated with consumption will be partially offset by a higher than projected increase in the fuel tax rate under the April 1, 2006, indexing adjustment. Under Act 25, the motor fuel tax rate was projected to increase to 30.7 cents per gallon on April 1, 2006. The actual indexing adjustment resulted in a motor fuel tax rate of 30.9 cents per gallon. However, under 2005 Act 85, the state's motor fuel tax rate will no longer be indexed after the April, 2006, fuel tax adjustment. Therefore, the fuel tax rate will remain at 30.9 cents for the remainder of the 2005-07 biennium, rather than being indexed to 31.3 cents per gallon on April 1, 2007, as projected under Act 25. As a result, estimated revenue increases associated with this indexing adjustment will not occur during the final quarter of 2005-06. The following table compares fuel tax rates under Act 25 and the revised rates for the biennium.

Changes in Estimated Fuel Tax Rates

<u>Tax Rate as of April 1</u>	<u>Act 25 Rate</u>	<u>Revised Rate</u>	<u>Difference</u>
2006	30.7¢	30.9¢ (Actual)	0.2¢
2007	31.3	30.9	-0.4

Vehicle Registration Revenues and Revenue Bond Debt Service

Vehicle registration revenues are now forecast to be lower than the Act 25 estimates by \$10.8 million in 2005-06 and by \$15.0 million in 2006-07. Although the number of registered cars and trucks is expected to grow compared to earlier years, the rate of growth is forecast to be lower than previously expected. Reductions in the forecast for disposable income and higher forecasts for vehicle prices and unemployment rates are the cause of the lower estimates.

While vehicle registration revenues are projected to be lower than the Act 25 estimates, debt service payments over the biennium are projected to be higher, reducing net registration revenues by \$31.2 million. In 2005-06, debt service payments are lower than the Act 25 estimate by \$1.3 million, but in 2006-07, debt service payments are expected to be \$6.7 million higher.

Other Transportation Fund Revenues

Although transportation fund revenues from the two largest sources, fuel taxes and vehicle registration fees, are now expected to be lower than the Act 25 estimates, these losses are slightly offset by net increases among the other revenue sources. Interest earnings and collections from the ad valorem tax on railroads are expected to be higher than the Act 25 estimates, while only minor changes are expected in other sources. Overall, revenues from sources other than fuel taxes and vehicle registration fees are forecast to increase by \$5.5 million in 2005-06 and \$6.7 million in 2006-07, relative to Act 25.

Actions to Address Deficit

In response to a request for information on the Department's strategy for addressing the deficit, the Department produced a document outlining the steps that have and will be taken, which is attached to this memorandum. In that document, as noted earlier, the Department indicates that additional monthly information since it prepared its revenue reestimates has reduced the estimated revenue shortfall for 2005-06 by \$20.5 million.

The Department indicates that when it became apparent that the high cost of fuel was likely to reduce fuel consumption below the levels that had been assumed when Act 25 was passed, steps were taken to achieve savings in the Department's administrative appropriations. The measures that the Department is taking include maintaining position vacancies, reducing purchases of equipment and supplies (such as license plates by the Division of Motor Vehicles), reducing LTE and travel expenditures, reducing non-let expenditures in the highway program, and using federal funds to substitute for state funds for certain types of expenditures. In many cases, these measures involve delaying expenditures that would need to be made up in the future. The Department indicates that, as much as is possible, critical functions will not be affected. For instance, the Department believes it will exceed its goals for total highway construction lets in 2006. Similarly, payments to local governments under the transportation aid programs will not be affected.

Although expenditure reductions in some areas, such as the Division of Motor Vehicles and departmental management and operations, will result in the lapse of funds at the end of the fiscal year, cuts in other areas will not. Funding for the Division of Motor Vehicles and other administrative functions are annual appropriations, meaning that funds that are not encumbered at the end of the year lapse to the transportation fund. Savings generated in these areas, therefore, have the effect of reducing the imbalance between appropriations and revenues. However, funding for many DOT programs, such as the state highway programs, are provided through continuing appropriations, meaning that funds that are unencumbered in the appropriation account at the end of

the fiscal year carry over into the next year. Consequently, expenditure reductions in these appropriations do not help solve the budgetary deficit because savings from those cuts remain appropriated. Since the amount of funding for DOT programs that is provided in annual appropriations is relatively small, the opportunities for generating savings that result in lapses is limited. For this reason, the Department indicates that its goal is to generate some of the savings through lapses in annual appropriations (estimated at \$5.0 million in 2005-06), but that other savings will occur in continuing appropriations. This means that on a budgetary basis, there will continue to be an estimated deficit in 2005-06 of \$13.8 million, but unencumbered balances in continuing appropriations are expected to offset the deficit in that year. The Department has not yet identified specific savings and budgetary deficit numbers for 2006-07, indicating that revenues and expenditures for that year will continue to be monitored.

BL/JD/bh
Attachment

cc: Senators Lasee, Schultz, Kedzie, and Robson
Representatives Gard, Huebsch, Kreuser, and Ainsworth
Members, Joint Committee on Finance
Members, Joint Legislative Committee on Transportation Needs and Financing

ATTACHMENT

DOT Response to Revenue Shortfall

Summary – Transportation Fund

Transportation Fund revenues are likely to come in below Act 25 levels due to sustained high fuel costs that have negatively impacted consumption. The Department is taking steps to align expenditures with anticipated revenues while still delivering all critical transportation programs.

Revenues

- Expenditures levels in the biennial budget (Act 25) were built largely on an April 2005 estimate of state revenues.
- Since that time, growth in state Transportation Fund revenues has been hampered by a number of events – most importantly, significantly higher than expected sustained gasoline and diesel prices that have decreased the amount of fuel purchased.
 - These prices have been driven in part by increased global competition, political unrest in several oil-rich countries, and the aftermath of hurricanes Katrina and Wilma.
 - The current average cost per gallon is nearly 75 cents higher than it was at the same time last year.
- Our first post-Hurricane Katrina revenue estimate for Wisconsin, done in April, indicates that revenues will fall short of the Act 25 amounts by \$35.2 million in FY 06 and by \$54 million in FY 07.
 - About \$6 million of the shortfall in FY 07 can be attributed to the loss of indexing
- Consumers have begun to change their driving behaviors in response to high gas prices. Preliminary data shows that highway travel in 2005 decreased by 0.5% over the previous year. **This would be the first annual decrease in highway travel since the recession of 1982.**
- It is unclear whether this will be a long-term trend or a short-term reaction before consumers become more used to higher motor fuel prices.

Steps to Address FY 06 Shortfall

- The final year-end figure will not be known until completion of the year-end close in August.
- The Secretary's Office directive is DOT will act responsibly by living within its means while also delivering critical programs. DOT has taken a number of steps to mitigate the impact of the projected revenue shortfall:
 - Close management of year-end expenditures to maximize lapses and to ensure that overall expenditures are balanced with revenues.
 - Less sophisticated but more-timely revenue and expenditure analyses are conducted on a monthly basis.
- As of the end of April, the monthly analysis estimates a revenue shortfall of \$29.6 million – extremely close to that of the April revenue forecast.
- Monthly estimates of debt service costs, investment earnings, and lapses from annual appropriations anticipate a savings of \$15.8 million.
- As of the end April, the Transportation Fund's shortfall is projected to be **\$13.8 million (less than 1% of total state funded expenditures)**. See Attached Table.
- To maximize year-end lapses;

- The Department has maintained a vacancy rate of 8.1% or over 280 FTE this fiscal year.
- Divisions have limited discretionary expenditures. For example, as of the close of the third quarter, DOT has spent only 57% of its LTE budget and 45% of its out of state travel budget.
- The Secretary's Office is, on a quarterly basis, reviewing division expenditure data.
- **To cover the remaining shortfall, the Department has identified a number of non-let highway program expenses that can be deferred to future fiscal years. Deferring expenditures in a continuing appropriation ensures expenditures do not exceed revenues in any given year**
- The relatively small budgetary shortfall does not impact DOT's ability to meet its financial commitments. DOT's average daily cash balance so far this fiscal year has been \$279 million.
- In FY 06, the Department will exceed its non-Marquette Interchange construction let goal of \$625 to \$645 million by \$15 million for a total of \$660 million. All other Chapter 20 financial commitments will be met in FY 06.

Steps to Address FY 07 Shortfall

- The Department is using the April estimate of a \$54 million shortfall for planning purposes; however, several factors could aggravate or mitigate the situation:
 - Unforeseen acts of nature, global political instability and petroleum supply and demand issues could push motor fuel prices even higher.
 - Residual effects of an FY 06 budget shortfall.
 - DOT will not know its FFY 07 obligation authority amount until later this year. Lower or higher than expected amounts would impact the FY 07 budget shortfall.
- For FY 07, the Department will follow the same processes we are using this year. The Department will use both formal revenue forecasts and its monthly revenue analyses to best determine whether the situation is improving or worsening. In addition, we will continue to identify lapses in annual appropriations.
- Regional allocations for FY 07 will be developed assuming a revenue shortfall of approximately \$50 million, but will be adjusted if the revenue situation improves.
- However, it may not be desirable to continue to defer expenses in the highway program if we believe revenue shortfalls will be a persistent problem because prior year budget authority balances will build up in the highway program without supporting revenues.
- Once we have a better understanding of the Transportation Fund's revenue collections in FY 07, the Department looks forward to working with the Governor and the Legislature to resolve any Transportation Fund imbalances prior to the close of the biennium to make sure a budgetary shortfall is not carried into FY 08.

**Monthly Revenue and Expenditure Analysis
April 2006**

State Revenue Shortfall

Motor Fuel Tax	\$-19,328,331
Vehicle Registration	-9,843,919
Drivers License	-403,463
Total	\$-29,575,713

Mitigating Factors

FY 05 Carryover	\$100,000
Misc. Revenues	2,000,000
Lapses (current and prior years)	5,000,000
TRB Debt Service Savings	4,465,724
Investment Earnings	4,191,400
Total	\$15,757,124

Estimated Fund Imbalance **\$-13,818,589**