

Transportation Development Association



Issue Paper #2

The Cost of Transportation Fund Bonding: Cash or Charge?

This is the second in a series of issue papers on key transportation topics facing the Wisconsin Legislature in the 2003-05 state budget

Will it be Cash or Charge?

That question, normally heard most often in the check-out aisle of the local department store, could be coming to a highway project near you under the proposed 2003-05 transportation budget currently before the Legislature. Governor Jim Doyle's proposed budget transfers more than \$500 million in cash from the State Highway Program to the General Fund to pay for state shared revenue and aid to local school districts.

The current budget would fill the hole in the segregated Transportation Fund with an unprecedented level of bonding – in effect, credit card transportation spending. While terms like "truth in budgeting" and "fiscal responsibility" have found their way into the debate about addressing the state's General Fund deficit, it appears they are in danger of being pushed aside in the debate over transportation funding.

Transportation Bonding

Bonding for transportation projects in Wisconsin is nothing new. Since the mid-1980s, Wisconsin has issued Transportation Revenue Bonds (TRBs) to finance a portion of major highway construction costs. This program, representing just 11% of annual transportation expenditures in Wisconsin, funds additional travel lanes on key state highways that are congested, unsafe and have the potential to stagnate economic development in the communities they serve. TRBs have traditionally funded 55% of the Major Highway Program, a prudent financing mechanism for long-term capital projects.

But just as credit card debt accumulates if charges continue while the cardholder makes only minimum payments, debt service on transportation bonds is already rising at an alarming rate. In the late 1980s, debt service payments accounted for 5.8% of state transportation revenues. In the 2003-05 proposed Governor's budget, it accounts for 8.3% of revenues as total bond debt service has increased 98% over the past 15 years. Rising debt service is the principal reason vehicle registration fees – whose revenues are pledged against the bonds – were increased \$15 (from \$25 to \$40) in 1991 and \$5 (to \$45) in 1997.

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2003-05 Budget Expands Bonding

The Governor's 2003-05 budget proposes \$450 million in additional transportation revenue bonding to replace state highway user fees being transferred to the General Fund. For the first time in state history, \$276 million in 10-year bonds would be issued for State Trunk Highway Rehabilitation projects, which involve relatively short-term overlays and reconstruction

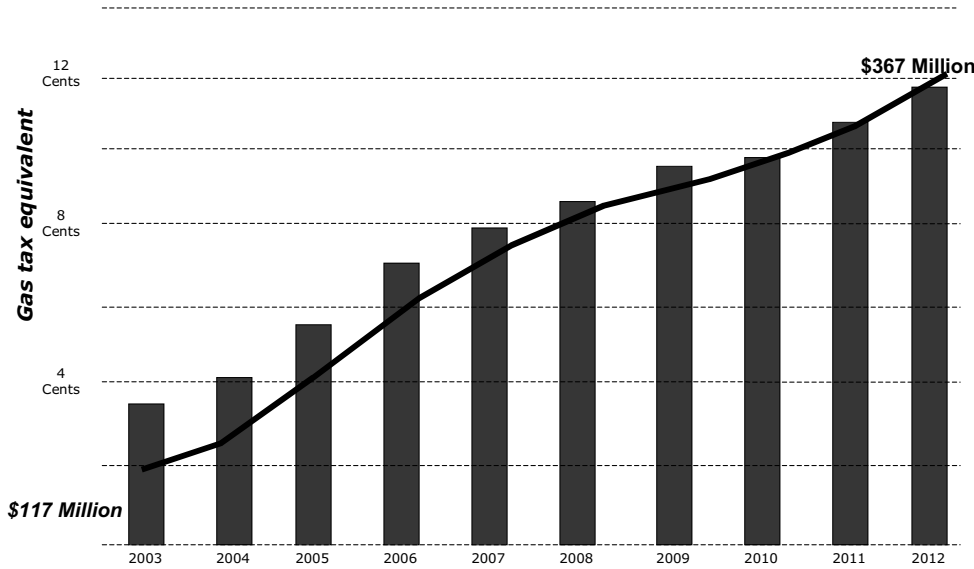
meant to extend a roadway's optimal life. That is like borrowing to buy groceries.

Bonding for the Major Highway Program would reach unprecedented levels – comprising a record 79% of the program in the first year of the budget and 71% in the second year.

In Southeastern Wisconsin, the Marquette Interchange reconstruction would be financed with a significant amount of bonds, likely clearing the way for even more borrowing when the freeway system in the region is rebuilt after the Marquette is completed.

THE EXECUTIVE BUDGET

Ramifications of Future Debt Service



Debt service will increase 214 % over 10 years...the equivalent of shifting 7.5 cents of fuel tax revenues from program investment to debt service

By 2012, equivalent of 11 cents of the gas tax will be pledged for debt service

A Mountain of Debt

To fund the initial cost of the additional bonding, the budget proposes \$10 increases in vehicle registration (to \$55) and titling (to \$18.50) fees and seeks to pledge the revenues from a host of vehicle fees for future debt service. These actions would occur because Transportation Fund debt service is projected to increase 213% over the next 10 years under current budget assumptions. The impact of bonding for the Marquette and Southeast Freeway would extend well beyond ten years as they will be at least partially financed with twenty year bonds.

As a result of debt service, \$276 million in base rehabilitation will be done at a cost of \$374 million to the Wisconsin taxpayer. In addition, an \$890 million Marquette Interchange financed with \$484 million in bonds, will cost \$1.26 billion over the life of the proposed bonds. The interest over

the twenty year life of the bonds adds \$370 million (or 40%) to the cost of the project. That is a hefty price to pay for borrowing. This essentially sets up the Transportation Fund for a series of user fee increases and/or new sources of revenue to pay for bonding debt service. The alternative is to accept reduced transportation investments in all areas in the future as growing debt service begins to take dollars away from needed highway, local road, and transit programs. Under both scenarios, infrastructure investment that creates economic growth suffers. Long term, it is an unsustainable transportation financing mechanism.

With transportation debt service already exceeding 8% of revenues, the impacts of the additional transportation fund bonding proposed in the 2003-05 budget will have a devastating impact on transportation.



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Issue Papers in this series include:

#1 Transportation a Key Business Asset in a Changing Economy

Upcoming Issue Papers in this series will include:

Highway Capacity

Commuter Rail in Wisconsin

Comparing Wisconsin's Transportation Funding

The Transportation Development Association of Wisconsin is a statewide, nonprofit organization working for an efficient transportation system for Wisconsin that addresses safe mobility and economic growth. To receive a copy of previous issue papers or for further information please contact the TDA office:

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