

**Testimony of Transportation Development Association Executive Director
Robert Cook before the Southeast Wisconsin Freeways Committee
August 30, 2005**

Thank you for the opportunity to testify. I believe Todd Berry, President of the Wisconsin Taxpayers Alliance summed the budget up best. In his July 29th newsletter, he wrote, "In the final analysis, 20-year highway bonds pay for schools this year and next."

I commend this committee for examining the impact of all this debt on the fiscal future of the state. When this transfer was initiated there was a lot of talk about doing what's best for kids. After the transportation user fees were spent on schools, Wisconsin put its transportation needs on the credit card and handed the bill to our kids. I don't see how that benefits kids.

Transfer of transportation user fees to the General Fund

Let's take a look at the transfer that was initiated by the Governor's veto and the impact it had on the transportation fund. \$427 million of transportation user fees was transferred out of the transportation fund and used to fund schools. \$250 million of the transfer is backfilled with general obligation bonds. In addition, cash that was set aside to pay for the Marquette Interchange was transferred and replaced with \$213 million in 20-year bonds. Bonding in the Major Highway program was also increased from the legislature's recommendation so that cash could be transferred from that account to pay for schools.

Consequences of the transfer and bonding

The transfers and bonding have serious consequences for transportation and the taxpayers in Wisconsin.

First, the additional bonding to complete the Marquette Interchange adds \$150 million to the overall cost. Wisdot will proudly tell you that the Marquette Interchange is coming in on its \$810 million budget. Wisdot and the contractors they partner with are to be commended for keeping the contract price on budget. However, the true cost is closer to \$960 million because the Governor's veto eliminated the Legislature's plan to pay cash for the interchange and replaced the cash with 20-year bonds. By putting it on the credit card the Governor added \$150 million in unnecessary interest payments to the project.

Second, by removing \$66 million the legislature had put aside to pay cash for the Marquette Interchange, the Governor made it more likely that the state will need to borrow for the remaining \$5 billion SE Freeway reconstruction. The Marquette is only the first of many projects that will constitute the freeway reconstruction over the next 20 years. By cash financing the Marquette, the legislature also built the base funding for the upcoming projects. That base funding was sent to schools. If the Governor bonds the SE Freeway reconstruction at the same level as he proposes to bond Major Highway projects, 55%, it will cost Wisconsin taxpayers approximately an additional \$2 billion in interest payments at current rates.

Look at the effect of all this debt. Today, 10 cents of every dollar collected in state user fees goes to pay interest on debt. It doesn't buy an inch of infrastructure. As you can see from the graph, the effect of the transfers and bonding in this budget steadily increase the percentage of revenue committed to debt service. This graph does not assume any of the potential bonding for SE Freeway construction beyond the Marquette.

This is the second budget in a row that transfers transportation user fees to general fund programs. The total transferred exceeds a billion dollars. We were told the 03-05 transfer was a one-time transfer to fix a structural deficit. The deficit was not fixed and now more has been transferred in the 05-07 budget. Unfortunately, these transfers are band-aids that do nothing to fix the structural deficit. The Legislative Fiscal Bureau predicts that Wisconsin will be facing a deficit in excess of \$1 billion for the 07-09 budget. If that is the case, it's likely that we'll be talking about more transfers and more bonding.

It is being argued that taking cash from the transportation fund and replacing it with bonds makes sense because transportation projects are long-term capital assets that should be financed over time. The truth is bonding only makes sense if the need for an expense occurs infrequently. The rising demand for safe efficient mobility means large transportation projects will be a part of Wisconsin's budget for the foreseeable future. Like using a credit card to purchase groceries every week, bonding for planned transportation improvements will bankrupt the transportation fund in the long run just as it did in New Jersey.

Beginning in July 2006, New Jersey's entire \$805 million transportation trust fund for roads and bridges will have to be used to pay off loans that New Jersey lawmakers relied on in the 1990's to pay for transportation projects according to a study by the New Jersey Regional Plan Association. An earlier report concluded that the state's transportation infrastructure was crumbling so rapidly that New Jersey will have to more than double the gas tax to raise the funds necessary for basic maintenance.

Future Funding

The transportation needs in Wisconsin go far beyond the SE freeway. Every region of the state has highways that are as important to the citizens in that area as the Marquette Interchange is to Milwaukee. Our transportation fund is also more than highways. It also pays for local roads, transit services for those who can't or choose not to drive and rail, air and harbor projects that keep our state open for business. Our transportation needs require adequate sustained investment to ensure safe reliable mobility. I have included a summary of the TDA transportation vision published last year which documents needs and funding options. I would like to review three recommendations to meet our transportation needs.

1. Restore the integrity of the user fee system by ending the transfer of transportation revenue paid by motorists to non-transportation programs. In short, stop raiding the transportation fund.

2. Reduce our growing addiction to bonding. As I mentioned earlier, bonding can be effective when used occasionally for exceptional expenses. It doesn't work as revenue stream. Bonding for over 50% of the Major Highway program every year and now the SE Freeway rehabilitation on top of that will eventually overwhelm the transportation fund. I believe the legislature had it right when they proposed cash financing the Marquette and reducing bonding in the Major Highway program.

Thanks to the bipartisan efforts of our congressional delegation behind the leadership of Representative Petri Wisconsin was able to secure an outstanding level of federal transportation funding for the next few years. WisDot will likely be coming to the legislature in a few months to discuss its plan to allocate the federal money. I encourage you to apply as much as possible to buy down the debt. It will be the best use in the long run.

3. We must maintain our existing revenue sources. The gas tax provides 64% of all the state revenue for transportation. While the gas tax in this state is relatively high, the overall cost to drive in Wisconsin is the lowest in the Midwest. Other states have alternatives to the gas tax including value based vehicle registration, tolls, local taxes, and general fund support for transportation that we don't have in Wisconsin. As long as the gas tax is the primary revenue source we must keep it in place and maintain its purchasing power through indexing. Indexing the gas tax is no different from sales and income taxes that rise with higher prices and pay. Because the gas tax increases conspicuously on April 1st and gas prices have risen sharply in recent weeks, it is an easy target. The truth is eliminating indexing will save the average motorist less than \$4 per year.

Transportation is the cornerstone of Wisconsin's \$175 billion economy. Every \$1 invested in our state highways returns \$3 in economic benefits. Given the transportation needs in the state, we should be looking for ways to secure adequate long-term transportation funding. The scheme of transferring transportation funds and replacing it with bonding is a budget gimmick that will cost us money and economic opportunity in the future.