

TRANSPORTATION FUNDING AT A CROSSROADS



ACEC
Wisconsin

Adequate, Sustainable and **Equitable** Funding Solutions Required to Avoid the Rough Road Ahead

Continued investment in Wisconsin's transportation system benefits all Wisconsinites whether it is getting us to our destinations safely or spurring economic development through tourism and industry. The transportation spending decisions made today will have long-reaching effects. Responsible bonding combined with new revenue sources will enable Wisconsin to face a future in which traditional sources of funding are insufficient. In the proposed biennial budget, transportation spending is funded purely by bonding for the major projects. This bonding will address many current issues, but it does not look to the continued health and expansion of Wisconsin's transportation system. Bonding will create future debt obligations that absorb 25 percent of the budget and deferring maintenance will cost taxpayers more in the future. An adequate, sustainable and equitable budget will address backlogged maintenance, continue with currently planned projects and allow the future infrastructure planning that the state needs.

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Adequate Funding is Essential for Safety and Economic Growth

Sustainable Funding Requires Responsible Bonding and Revenue Increases

Equitable Funding Benefits All Wisconsinites

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Introduction

Nationwide and here in Wisconsin, transportation funding is at a crossroads. Many metrics show that our infrastructure spending lags behind other states and our roads and bridges consistently receive low marks from independent organizations. In particular, the [American Society of Civil Engineers](#) reports that Wisconsin has almost 1,200 structurally deficient bridges and 21 percent of our major roads are in poor condition. To address only the major state highways projects, \$3.1 billion is needed in the upcoming years. ([Transportation Finance and Policy Commission, 2012](#)) Continued investment is critical.

Structurally
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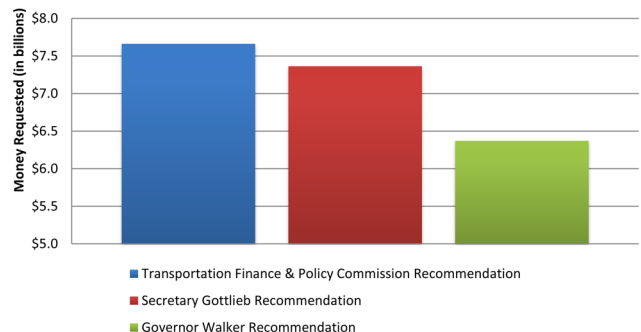
Diversifying the income stream through adequate, sustainable and equitable revenue sources is vital to a safe and robust transportation network. The current budget uses an extraordinary amount of bonding to fund its transportation programs. While that might address current infrastructure needs, it does not look to the continued health and expansion of our system. In November 2014, Wisconsin voters overwhelmingly approved the Segregated Transportation Fund amendment, demonstrating the belief that revenues need to be protected and that infrastructure is important to our continued well-being and economic competitiveness.

Maintaining safe and reliable roadways is a critical component of our state's economy. Investments in transportation infrastructure directly correlate to economic growth. Likewise, lack of funding will delay safety projects leading to more crashes and fatalities. The transportation spending decisions made in the 2015-17 budget will either keep Wisconsin's economy moving forward or have the potential to depress growth by delaying needed infrastructure investment and passing down greater costs to taxpayers in the future. Wisconsin deserves a transportation budget that is adequate, sustainable and equitable.

Adequate Funding: Essential for Safety and Economic Growth

Adequate funding for Wisconsin's transportation system means meeting the funding recommendations of the Wisconsin Department of Transportation (WisDOT) budget for our current needs while also looking to our future requirements. According to the [Federal Highway Administration](#), more people are using the transportation system as evidenced by increased vehicle miles travelled (VMTs). This is reflected in increased delays, more crashes, injuries and fatalities, and more stress on our roads and bridges. The result is lost productivity through people sitting in traffic instead of working or shopping and general user frustration.

Transportation Budget Recommendations

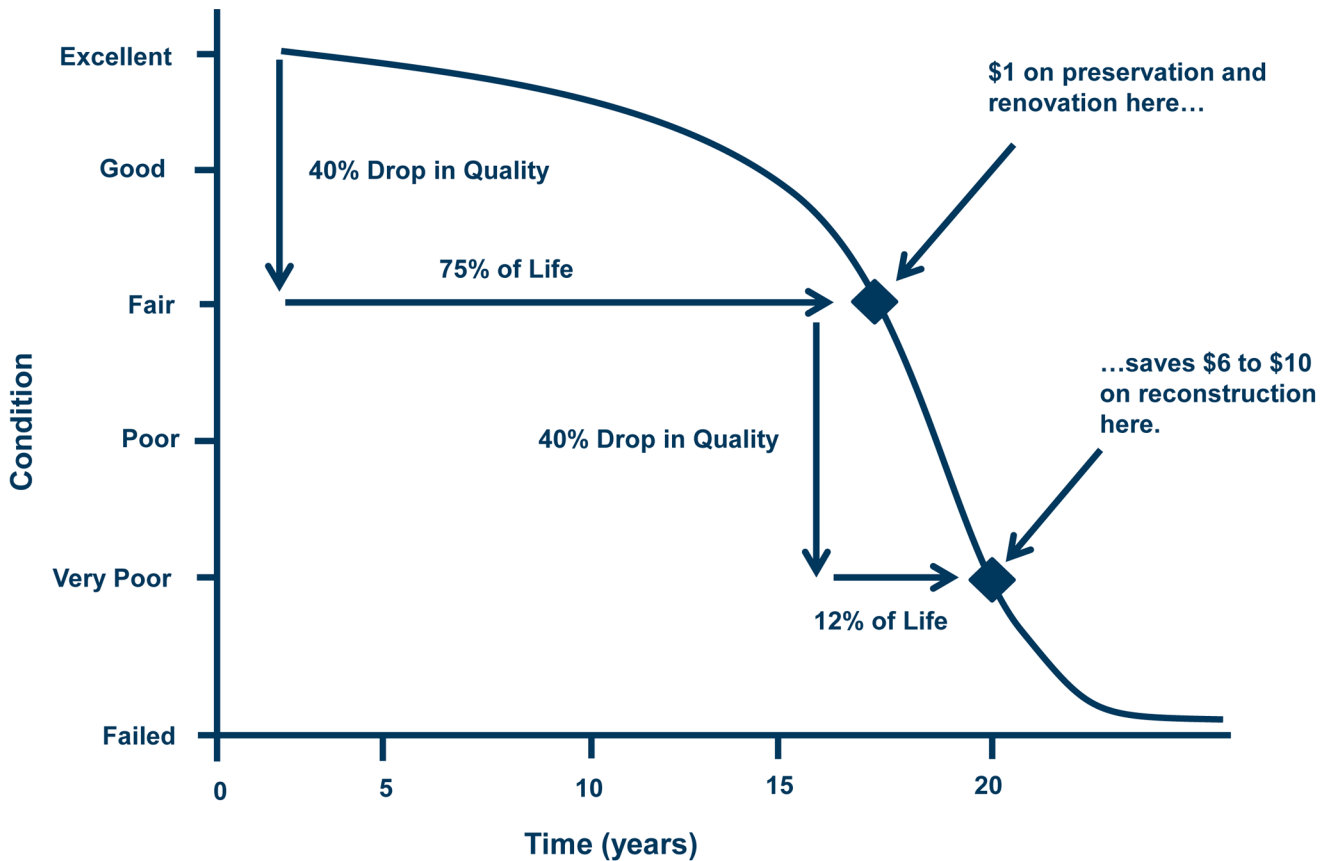


In 2012, Governor Walker created the Transportation Policy and Finance Commission, composed of public stakeholders, to look at the transportation issues facing Wisconsin. This commission found that, in order to fully meet all of our obligations, we would need a budget of \$7.66 billion this biennium. ([Transportation Finance and Policy Commission, 2012](#)) Through ruthless efforts to find new efficiencies, the Department of Transportation was able to offer a budget that met most of our needs at \$7.3 billion. ([WisDOT Proposed Budget, 2014](#))

Both of these proposals looked at our current needs while considering what our transportation system will look like in the future. These proposals did not solely rely on bonding because of the impacts that debt service and repayment that would have on further expansion and maintenance of our roads and bridges.

Transportation funds are not evenly distributed between maintaining what we have and expanding the system. In fact, 85 percent of revenues are used on existing roads whereas only 15 percent is used for new construction. ([WisDOT Proposed Budget, 2014](#)) These continuing maintenance costs for our current infrastructure will not go away and require constant attention. While many citizens believe our roads are under constant repair and renovation, it actually makes fiscal sense to keep up a rigorous system of repair to keep costs down – spending one dollar in maintenance at the proper time can save six to ten dollars later in deferred maintenance costs. ([WisDOT Presentation, 2015](#))

Cost/Benefit of Pavement Renovation vs. Reconstruction

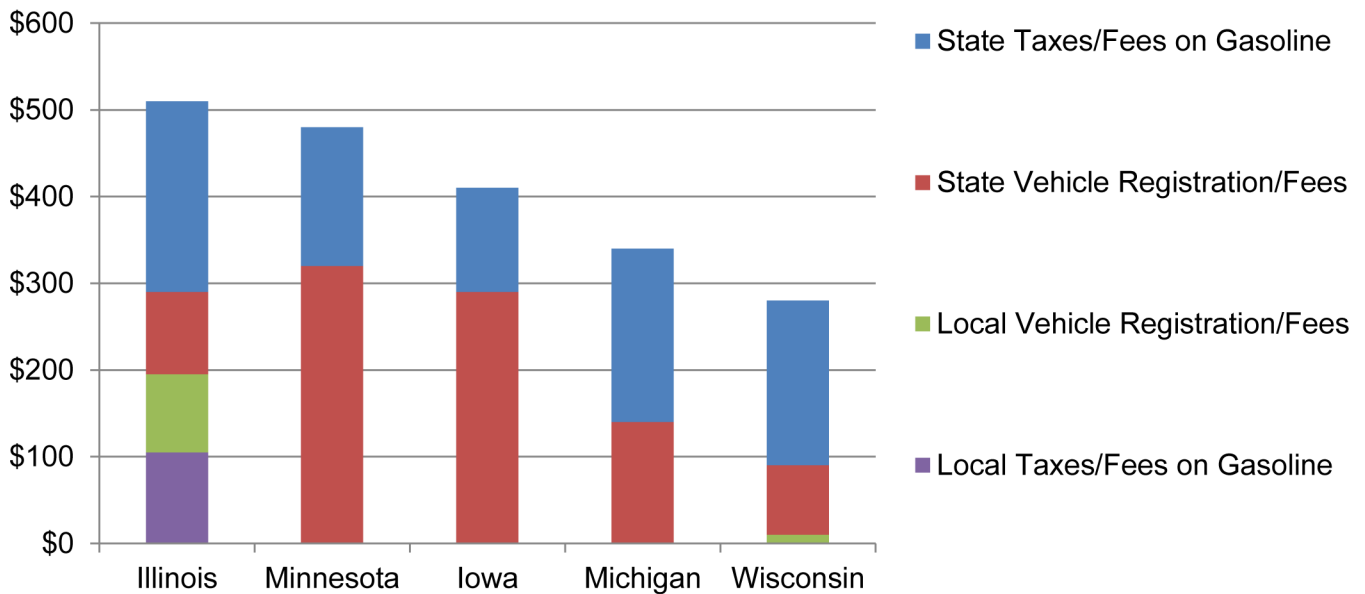


By analyzing current needs, the Wisconsin Department of Transportation evaluates where the system can be modernized and improved. This allows the department to work closely with engineers to create plans that improve the system strategically. At proposed funding levels, all areas of the state will experience significant delays and capacity decay in the next decade and beyond. ([Connections 2030, 2010](#)) Inconvenience to transportation system users is not the only impact. Maintenance, modernization and expansion are critical to safety. Likewise, Wisconsin’s economic competitiveness is hampered when we cannot export our goods or provide the imports necessary for our industries to function. In an increasingly globalized economy where consumers make purchasing decisions based on time as much as cost, delays originating in the state’s transportation system hurt local businesses. ([Transportation Improvements Benefit Wisconsin’s Economy, 2003](#))

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Providing adequate transportation funding would not be overly burdensome on users of the system. Wisconsin has user fees that are the lowest in the Midwest. ([WisDOT Presentation, 2015](#))

State Comparison of Motor Vehicle Costs



The regional comparison is important as it takes into account harsh winters and similar economic conditions. Neighboring states such as Iowa and Michigan are already taking steps to address funding shortfalls by increasing user fees.

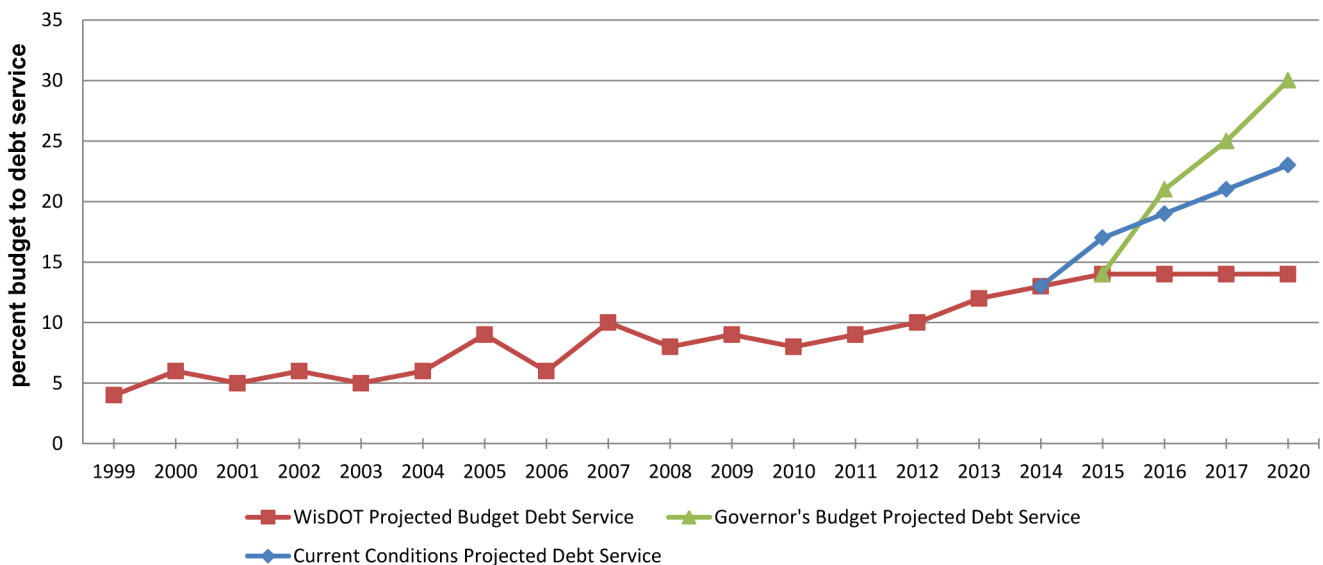
By adopting even a few of the revenue enhancers suggested by the Transportation Policy and Finance Commission, the transportation fund would become more adequate, sustainable and equitable. It would be prepared to confront increasing demands on the system while providing the level of service expected by the public. This budget must focus on promoting the welfare of Wisconsin citizens and adequate transportation funding is essential for safety and economic growth.

Sustainable Funding: Responsible Bonding and Revenue Increases Required

Much of the discussion around infrastructure spending in this budget revolves around the governor's proposal to use bonding at extraordinary levels. It is important to look at what it means to provide bonds for transportation projects in this context. Bonding makes sense when looking at megaprojects. Megaprojects traditionally use bonds to pay for design and construction because they are expected to outlive those bonds. On the other hand, bonds are not used for projects like maintenance or modernizations because those bonds will not be paid off by the time those roads need new maintenance.

The current transportation budget is unsustainable because it focuses on the short-term to the almost complete exclusion of future issues. As mentioned above, VMTs are increasing which makes future expansion of the system inevitable. Incurring extreme levels of debt today will not allow us to devote the necessary funds to those projects and will even result in deferred maintenance on the existing system with all of the attendant safety risks. If the proposed levels of bonding proceed forward, the next budget will need to devote 25 percent of every transportation dollar collected to debt service in 2017. ([WisDOT Presentation, 2015](#))

Debt Service in WisDOT Budget



The proposed biennial budget also sets a precedent that using bonding for all transportation issues is acceptable. This misconception can send us into a spiral of increasing debt service payments and decreasing transportation services and investments. Wisconsin can look to the examples of other states that bonded inappropriately. In New Jersey, nearly all current revenue is required just to pay off past bonding. This has forced them to delay even necessary repairs. ([New Jersey Report, 2010](#)) [Missouri's Department of Transportation](#) has considered abandoning parts of the transportation system because they have been forced to use too much of their revenue on debt repayment.

Wisconsin currently has the lowest vehicle user fees in the Midwest. To keep our transportation fund sustainable and keep pace with our Midwestern counterparts, Wisconsin should add revenue enhancers. These sources can be used in addition to bonding in this biennial budget. The [Transportation Policy and Finance Commission](#) presented many different options that could be enacted by the legislature that would not place an undue burden on individual vehicle users but would ultimately address many revenue shortfalls and create a more sustainable system.

Now is the key time to act with prudent creative thinking. The Legislative Fiscal Bureau (LFB) has pointed out that even the smallest changes pay big dividends over time. For example, if gas tax indexing had not been discontinued, the state would have an additional \$980 million to use on transportation projects now. ([LFB Report, 2015](#)) Utilizing funding mechanisms that will adjust with time means that the burden on taxpayers is kept to a minimum by not imposing high fixed costs on their budget regardless of economic circumstances. It also allows WisDOT to adjust to the changing realities of transportation. Vehicles are becoming increasingly fuel efficient and this has a negative effect on the revenue brought in by gas taxes. Wisconsin gas stations sold 77 million fewer gallons of gas in 2012 than in 2004, widely a reflection of increasing fuel economy standards. ([Wisconsin's Transportation Funding Dilemma, 2013](#)) At the current rate of gas taxes, that's over \$25 million less money for transportation projects and this deficit will only increase.

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Transportation funding gets caught in a harsh position.
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In the end, transportation funding gets caught in a tight position - declining revenues result from increasing fuel economy while increasing demands are put on the system from maintaining what we have and expanding where necessary.

Fuel economy standards are expected to climb 51 percent in the next 10 years compared to 27 percent in the last ten years meaning funding issues can't be pushed further down the line. ([Beyond Traffic 2045, 2015](#)) Further reliance on bonding hamstrings future budgets even more by forcing them to cope with those increased debt payments.

Wisconsin faces a tight fiscal situation. In such an environment, revenue increases might not be possible without placing burdens on taxpayers. Funding plans should be tied to the reality of the overall economic picture which might require using bonding at a higher level than requested. While this paper does make the case to use revenue enhancers and less bonding, the main concern must be with the state of the transportation system. Adequate and significant levels of funding, whether through new revenue sources or bonding, are the most important items because those investments directly link to safety, economic growth and user satisfaction. In a budget that places an emphasis on the welfare of Wisconsinites, transportation investments must be at the forefront.

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Creative solutions are available.
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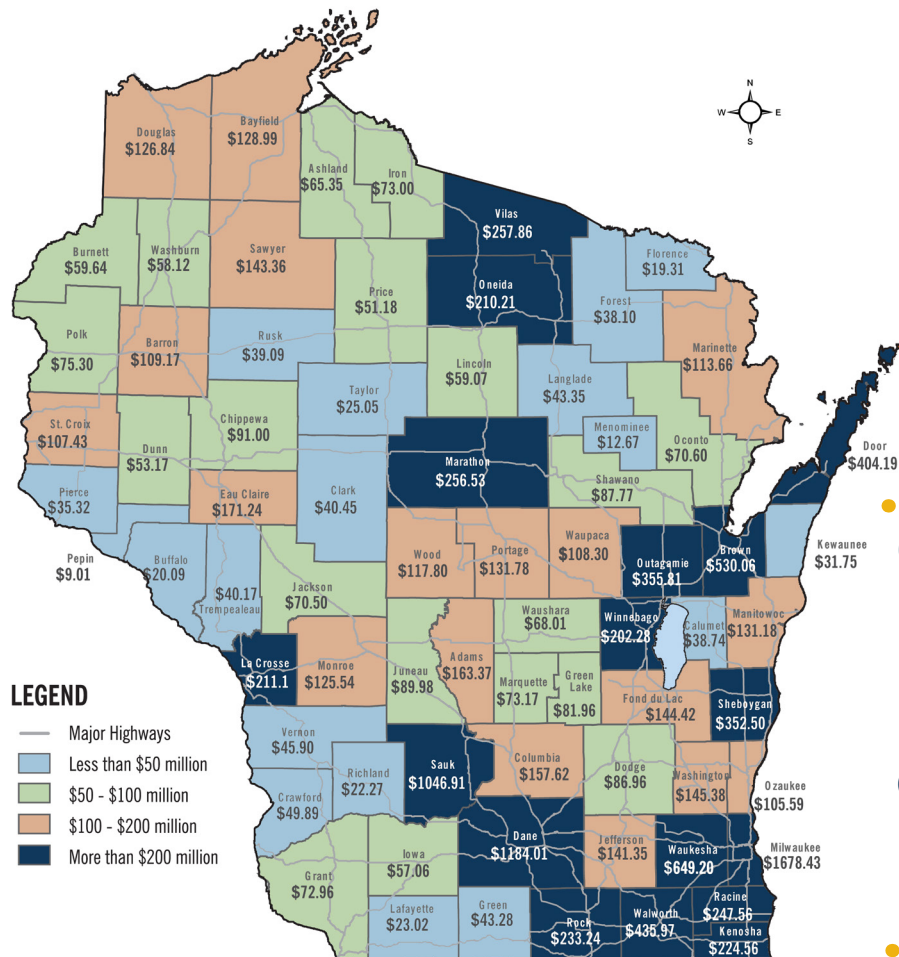
The situation is not all doom and gloom. The WisDOT has been a state leader in promoting lean government. Efficient use of funds also results from the creation of long-term plans because resources are better coordinated and directed where they are most important. An effective transportation system is one that has sustainable revenue sources. Creative solutions are available and the recommendations of the Transportation Funding and Policy Commission are a good starting place. Bonding can be used responsibly for megaprojects but revenue enhancers should be used for the other areas of the transportation budget. Acting now ensures that our transportation system continues to meet the needs of its users and provides a sustainable base from which to meet future issues.

Equitable Funding: All Wisconsinites Benefit

An area of taxpayer concern is the perceived focus on funding for megaprojects in Southeastern Wisconsin. Those investments make sense within the context of the full system and total around \$800 million in the biennial budget. In contrast, over \$1.6 billion is allocated to the State Highway Program as well as to local transportation aids that allow municipalities to address their needs and address issues across the state. ([Governor Walker's Proposed Budget, 2015](#)) An equitable transportation system meets the needs of citizens around the state through planned investments. Working together, professional engineers identified needs that extend far into the future so that investments in one year don't come at the expense of other parts of the system in subsequent years. ([Connections 2030, 2010](#)) The proposed budget is equitably designed to keep all parts of the system functioning, although not at adequate or sustainable levels.

Transportation funding needs to be equitable when viewed in the context of the entire state economy. A holistic understanding is important. Delays in the southern part of the state negatively affect the tourism industry in northern counties as tourists are unable to get to their destinations on time. Of the 17 counties in Wisconsin making more than \$200 million from tourism in 2007, over half are located north of Dane and Milwaukee counties. ([Connections 2030, 2010](#))

Traveler Expenditures in Wisconsin, 2007



Of the 17 counties in Wisconsin making more than \$200 million from tourism over half are located north of Dane and Milwaukee counties.

For these recreational purposes, adding extra time to an already long drive can be a deterrent to future travel. In addition, transportation bottlenecks anywhere can slow down commercial traffic that relies on quick transit times to move their goods to markets. Wisconsin has many natural resources and industries that interact in complex ways. However, the common denominator for those interactions is that they require infrastructure to meet those needs.

Transportation funding correlates to job creation.

Transportation funding also directly and indirectly correlates to jobs. For every \$1 billion spent on transportation investments, 30,000 jobs were created ([Federal Highway Administration, 2007](#)) These jobs were not just in the construction sector but covered supporting groups as well as other industries that saw increased returns from consumers with new jobs. These induced and supporting job markets tend to exist after the construction is actually finished which means lasting employment through transportation investment. This job creation is a significant return on investment that benefits multiple sectors of the economy, equitably distributing income created by transportation funding.

Citizens are concerned with the ways that their transportation tax dollars are being spent. In the last election, 80 percent of people voted for the Segregated Transportation Funding which highlights the importance of using transportation funds for their intended purpose. ([Government Accountability Board, 2014](#)) Overwhelmingly, people believe it is fair that transportation revenue should fund transportation projects and that users pay in proportion to their use of the system. And with the amendment passing through the legislature with bipartisan support twice, previous legislators also agreed that something needs to be done about our infrastructure as well. This means that we must find methods to fund the system in equitable ways. The key is to not let regional differences

interfere with the creation of a unified network that connects all of the Wisconsin. The long-term plans created by WisDOT look at a system that provides for all vehicle users in an equitable way but sustainable and adequate revenue sources are required to meet that goal.

Conclusion

Wisconsin deserves a transportation system that is adequately, sustainably funded and equitable to all transportation users. Overreliance on bonding shatters that goal by committing too many resources to debt service and focusing only on short-term needs to the detriment of long term plans. New revenue sources are needed to make up those funding shortfalls that more bonding cannot paper over. Yet, the budget must be sensitive to the economic climate and promote the safety and economic welfare of citizens through whatever funding mechanisms work. The transportation landscape is constantly changing as more people drive and fuel efficiencies reduce the revenue brought in by traditional funding mechanisms. While Wisconsin has lagged behind in the past in infrastructure spending, momentum in the state is growing to correct the balance. Through extensive planning, private/public partnership and increasing efficiencies, funding can be used in the most effective manner possible.

Overreliance on bonding commits too many resources to debt service and focuses only on short-term needs to the detriment of long term plans.

Wisconsin is at a crossroads. The decision to find adequate, sustainable and equitable funding sources has the potential to move Wisconsin forward. A robust transportation system is vital to maintaining the quality of life we have come to expect in Wisconsin.

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