Finance Mechanisms for Optimizing Funding Decisions

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Overview

- State funding - allocation and oversight role
- Most common revenue sources
  - Fuel tax
  - Bonding
- Innovative finance options
- Research efforts

WISCONSIN – Budget and Appropriations Process

- WisDOT submits a biennial budget requests to the Governor in the fall of even numbered years.
- State Fiscal Year begins July 1.

NEW LEGISLATIVE BILLS / RESOLUTIONS

- WisDOT may request legislative bill drafts – all bills must be formally sponsored and introduced by a legislator or legislative committee.
- WisDOT staff testify at hearings and committee meetings on legislation affecting the department.
- WisDOT develops both policy and fiscal notes on relevant pending legislation.

WI Legislative Committees having jurisdiction over transportation-related issues include:

- ***Standing committees and subcommittees:***
    - *Senate Committee on Transportation and Veterans Affairs*
    - *Assembly Committee on Transportation*
    - *Joint Committee on Finance*
- ***Task forces or commissions**:*
    - *Transportation Projects Commission*

Legislative oversight outside of budget

- Legislature reviews and approves major highway projects and project studies. The review is performed largely by the TPC (Transportation Projects Commission), using recommendations from WisDOT, as part of the biennial budget process.

- The TPC is a legislative body, chaired by the governor, that is made up of 10 legislators, three citizen members, and the secretary of transportation, who is a nonvoting member.

- After projects are approved by the commission, they then must be approved by the full Legislature and identified in statute (Wis. Stat. Ann. §13.489 and §84.013). The Legislature also approves overall funding levels in the biennial budget bill.

- Legislative approval may be required for WisDOT to move funds between projects
  - WisDOT cannot move funds between broad appropriation categories without legislative approval.
  - Within those categories, however, WisDOT has discretion to move funds between projects.

WisDOT is authorized to retain excess funds at the end of the fiscal year

- Excess Funds are funds not yet obligated (encumbered) or spent.
- WisDOT retains appropriated but unobligated funds (from year to year) related to most capital improvement and maintenance programs.
- Excess fund revenues are not available for expenditures – unless appropriated by the Legislature .
- Excess funds must be re-appropriated to be spent.
- Administrative functions – unspent funds lapse to the transportation fund at the end of the fiscal year.

State Transportation Revenues are allocated through legislative appropriations

- WI has a comprehensive, multimodal trust fund called the Transportation Fund, which receives fuel taxes and other transportation-related revenues.

- The state constitution prohibits transfers or appropriations from the Transportation Fund to any program that is not directly administered by WisDOT in relation to the state's transportation systems, except for programs that had an appropriation from the fund as of Dec. 31, 2010 (Wis. Const. art. VIII, §11).

- State statute further provides that the fund may be used for transportation purposes that include highways, airports, harbors, ferries, railroads, and bicycle or pedestrian facilities, as well as administrative costs, safety programs, and traffic enforcement (Wis. Stat. Ann. §25.40).

- Before the constitution was amended in 2014, the state had used transportation revenues to support the general fund, notwithstanding statutory restrictions.

Fuel Taxes

- Fuel taxes are the primary source of transportation funding at the state and federal level
- Motor fuel taxes offer revenue stability and predictability.
- Compliance costs in paying fuel taxes is limited; risk of tax evasion is limited. Administrative costs are low.
- Significant amounts of revenue can be generated via the fuel tax.

Bonding

Bonds are used for the following:

- state highways;
- passenger and freight rail; and
- harbor improvements

Bond Financing

- Provides economic benefits of a project more quickly, particularly when a project would otherwise be delayed because of insufficient cash resources.
- Allows improvements with a significant useful life to spread the costs over a longer period of time.
- Debt service must be paid on bonds and is a “first draw” on the Transportation Fund.
- Debt service on the bonds will create a draw on the funds for decades after the bond revenue is available.

Restrictions placed on the use of transportation-related bonding or other finance mechanisms

- General obligation bonds must be used for the purposes for which they were authorized by the General Assembly.
- State statute currently limits transportation revenue bonds to a total of $3.93 billion (Wis. Stat. Ann. §84.59).

Bonding - Debt affordability measures

- Ratio of debt service to total revenues
- Ratio of debt service to total expenditures
- Debt service coverage by pledged revenues
- Credit ratings

Borrowing – Bonding

- Bonds are the most common method of borrowing. When States issue bonds they promise to re-pay the loan in regular intervals.

- Bonds Terms – 10 year and 20 year bond issuances. The lifespan of the capital improvement defines the term (10 vs. 20) of the loan.

- Most bonds are rated by private companies; these ratings help gauge the State's ability to pay back the bond by the due date.

- States typically use state taxes, fuel taxes, vehicle related taxes, and toll receipts to generate revenue to repay the bonds.

- WI issues two forms of bonds.
  - debt service is highway user **REVENUE BONDS** – whose only security was pledged highway user revenues.
  - **GENERAL OBLIGATION BONDS** – backed by the full faith and credit of the state; the principal source of revenue for debt service is highway user revenues.

Other Revenue Options

- Consider new fees or programs (VMT, tolling, P3's)
- increasing the motor vehicle fuel tax
- Increase registration fees
- reintroducing fuel tax indexing
- exploring various types of sales tax transfers
- new sales tax options, and debt management options

Imbalance between available funding and program needs

- State and national policy makers continue to look for innovative funding and financing options to help address the challenges of managing demand (especially in congested areas).

- Without additional funding over the next decade, the state's purchasing power for transportation infrastructure will decline.

- Reliance on bonding at current levels is not sustainable into the future.

Innovative Finance

The private sector may be able to participate in innovative financing of surface transportation infrastructure through a Public-Private Partnership.

- Concession agreements – long term lease of existing facilities
- Lease agreements on equipment – e.g. lighting

Additionally there are several Federal programs which provide financing to private investors and infrastructure developers including some of the following:

- TIFIA
- SIBs
- GARVEEs
- PABs
- BABS

Transportation Infrastructure Finance and Innovation Act (TIFIA)

TIFIA loans are negotiated between the USDOT and the borrower and are based on the project's economics and characteristics. The amount of credit assistance cannot exceed 33% of total anticipated eligible project costs.

Changes Under MAP-21

- Congress authorized $1.75 billion in budget authority;
- Each dollar of federal funds can provide up to $10 in TIFIA credit assistance;
- Most eligible project types and project costs retain their previous TIFIA eligibility;
- The maximum loan amount has been increased.

Any project eligible for federal assistance through existing surface transportation programs is also eligible for the TIFIA program. Examples of eligible projects include:

- Transit
- Rail
- Highways
- International bridges and tunnels
- Freight rail facilities
- Intelligent transportation systems (ITS)
- Intermodal projects, including those that facilitate access into and out of a port
- Projects eligible for assistance under title 23 or chapter 53 of title 49

State Infrastructure Banks

- In addition to bonding and borrowing, some States can use State Infrastructure Banks (SIBs) as a financing mechanism for their highway and transit projects.
- SIBs can provide projects direct loans with appealing interest rates; additionally, the revenues from repayment and interest may be used to fund additional loans.
- SIBs can focus their financial assistance on projects that utilize other federal and/or private capital while helping to achieve environmental, economic, and safety benefits.
- SIBs are initially capitalized with funds from various sources.
- States may capitalize SIBs with up to 10 percent of their federal highway and transit capital funds and must provide a match equal to 25 percent of all federal funds used for such purposes.

Grant Anticipation Revenue Vehicles (GARVEE Bonds)

- GARVEE Bonds are a financing mechanism used by many states to finance highway projects.
- The bonds are secured by federal transportation funds from the federal highway trust fund, which is funded from motor fuel taxes that are levied on a federal level.
- Bonds, generally tax-exempt, sold by States and backed by and repaid with specific Federal-aid funds
- Bonds issued to provide new funding to an eligible project or to refinance existing bonds
- No Federal guarantee of repayment; any pledges or obligations must come from State legislation and/or executive authority
- Local match is required with every debt service repayment
- Advantages: Acceleration of construction; low interest rates for new money bonds and re-financings; leveraging of Fed funds Disadvantages: Cost of interest; loss of future flexibility
- Administration: FHWA establishes rules on GARVEEs; States issue the debt and establish the terms of the bonds.

Private Activity Bonds (PABs)

- Private Activity Bond - are tax-exempt bonds issued by or on behalf of local or state government for the purpose of providing special financing benefits for qualified projects.

- The financing is most often for projects of a private user, and the government generally does not pledge its credit.

Build America Bonds (BABs)

- America Bonds - are taxable municipal bonds that feature tax credits and/or federal subsidies for bondholders and state and local government bond issuers.

- BABs were introduced in 2009 as part of the American Recovery and Reinvestment Act to create jobs and stimulate the economy. BABs attempt to achieve this by lowering the cost of borrowing for state and local governments in financing new projects.

- There are two types of BABs:
  - Tax Credit Bonds – offers 35% federal subsidy of the interest paid to bondholders
  - Direct Payment Bonds – a subsidy in the form of a tax credit paid toe the bondholder.

Need for Continued Research Efforts

- NCHRP Synthesis 20-05, Topic 47-07 Evolving Debt Finance Practices for Surface Transportation
  - WisDOT participated
  - "While there is significant research on general debt management policies and debt affordability measures, there is very limited existing literature as it relates specifically to transportation debt."
- Support continued research on the topic
  - "The primary objective of the proposed research is to develop a deeper understanding of the debt issuance and management policies that states follow related to transportation debt. The final deliverable will be a guidebook to help state DOTs develop and implement effective debt management policies."

Thank you!