



EXCEEDING THE LIMIT

**WisDOT and Transportation
Financing in Wisconsin**

2003 LEGISLATIVE BRIEFING BOOKLET
1000 Friends of Wisconsin

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Introduction

The Wisconsin Department of Transportation (WisDOT) faces a fiscal crisis similar to the one faced by the state as a whole. It has fallen into a pattern of spending beyond its means; however, this problem has largely been ignored in discussions about the state's current fiscal crisis because almost no transportation costs are funded out of the General Purpose Revenue (GPR) Fund.

The separation of WisDOT's funding from the GPR should not comfort the governor, legislators, or citizens as they consider how to re-order Wisconsin's fiscal house. Instead, it should deeply concern them, because in addition to the multi-billion dollar deficit in the GPR, which funds the university system, school aids, shared revenues to local governments, corrections, health care, and nearly every other state program, WisDOT's own segregated fund, which pays for the state's transportation system, faces a shortfall that WisDOT predicts will be at least \$5 billion over the next 15-20 years.

WisDOT's fiscal problems are the result of a pattern of spending and funding priorities that have become increasingly unsustainable over the last fifteen years.

In the last fifteen years, the gas tax has increased 34%.¹ Registration fees have been raised 80%.² Federal funding has increased 80%.³ Since 1988, the rate at which WisDOT issues bonds and takes on new debt has increased 98%.⁴

WisDOT has received almost every funding increase it has sought.

Despite consistent funding increases, just three years ago the Wisconsin Department of Transportation predicted a \$5.1 billion shortfall in highway funding between 2000 and 2020. Since then, that number has increased by as much as another billion dollars – and almost assuredly will increase further due to rising

project costs, uncertainty regarding Federal funding levels, the national, regional, and state economic contexts, and inflation.

One piece of good news is that the condition of Wisconsin's road system is improving. A recent study found that the percent of roads not in good condition has been reduced from nearly 60% in 1994 to just over 40% in 2001.⁵ While we have to ask whether this number would be even lower if WisDOT had focused more on repair rather than expansion over the last fifteen years, it does represent a move in the right direction.

We can build on this positive trend by ensuring fiscal responsibility and increasing WisDOT's accountability to legislators, the governor, and citizens. Doing so will stabilize the Wisconsin Department of Transportation's budget and avoid leaving a multi-billion dollar debt as the transportation legacy of the first half of the 21st century.

In this report, 1000 Friends of Wisconsin has taken on the role of preliminary "auditor" of transportation spending in Wisconsin. WisDOT's current spending practices are unsustainable. Our research has confirmed that WisDOT is not held sufficiently accountable to the legislature, the governor, or the citizens of Wisconsin. It also has confirmed that WisDOT's current fiscal crisis stems in part from its spending on state highways, and expansion rather than repair. For this reason, this report deals almost exclusively with these issues and not modal or equity issues. In response to our findings, 1000 Friends of Wisconsin has also proposed the first portion of a transportation policy reform package – the Wisconsin Transportation Efficiency Act (WisTEA) – which focuses exclusively on the finances of Wisconsin's transportation system and its steward, WisDOT*.

“Under existing plans, shortfalls in state transportation funding are projected in coming decades. Tough choices on both the expenditure and revenue sides of the ledger lie ahead. Rebuilding the southeastern Wisconsin freeway system looms particularly large.”

– Wisconsin Taxpayers Alliance

The Wisconsin Taxpayer, "Transportation Financing in Wisconsin."

A note on data sources and calculations.

1000 Friends has used WisDOT's data in this report. The primary source was WisDOT's "Transportation Budget Trends" document of August 2002. Other WisDOT sources include the State Highway Plan 2020 Summary, WisDOT budget proposals for the 2003-05 Budget and associated letters, and materials available at its website. In addition to WisDOT sources, we have analyzed papers, articles, and reports of the Legislative Audit Bureau, the Legislative Fiscal Bureau, and the Wisconsin Taxpayers Alliance. Also, we have communicated with representatives of WisDOT and the Legislative Fiscal Bureau in the course of our research. We appreciate their willingness and time in assisting us.

Calculations made in this report are based on numbers provided in the aforementioned sources. Most calculations are straightforward and are not complex. However, to ensure that our methodology is clear, we have included Appendix 2: Calculations with cross-referencing in both the text and the appendix.

* Subsequent to this report, 1000 Friends of Wisconsin will release its evaluation of how Wisconsin's transportation system meets the needs of its citizens.

WisDOT's Funding

WisDOT is the only state agency that does not have to compete for funding in each state budget.

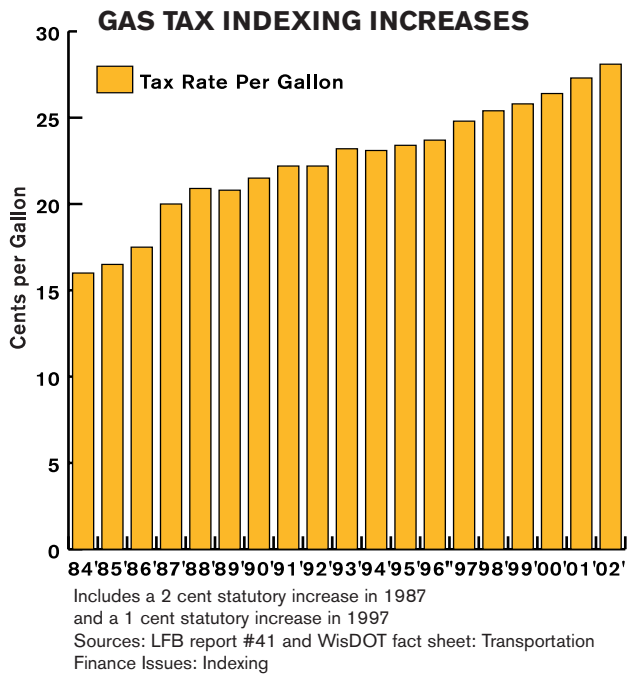
WisDOT is the only agency in Wisconsin to have its own segregated fund dedicated solely to its programs. In 2003, the Segregated Transportation Fund totaled \$2.36 billion.⁶ All other state agencies must compete for General Purpose Revenue (GPR) dollars in each biennial budget period, requiring them to regularly demonstrate the merits of their past spending as well as their future needs. Badgercare must compete with the University System, which must compete with Corrections, and so on. Only transportation is exempt from this process.

Every year, Gas Tax Indexing raises taxes – without the Legislature's approval.

Wisconsin currently has the second highest gas tax in the country behind Rhode Island.⁷ Indexing, another word for an automatic increase without Legislative approval, was implemented in 1985. Since then the gas tax has increased 57%.⁸ Currently, the gas tax rate is 28.1 cents per gallon and in 2003 it generated \$891 million, which goes directly into the Segregated Transportation Fund.^{9,10}

Since 1988, indexing has increased the gas tax rate by 30%, yet gas tax revenues have increased 82%.¹¹ Even if gas tax indexing and statutory increases had not been implemented, annual revenue from the gas tax still would have increased more than \$150 million between 1988 and 2003 due to increases in consumption.¹²

[See Gas Tax History in Appendix 1 and Gas Tax Indexing in Appendix 2.]



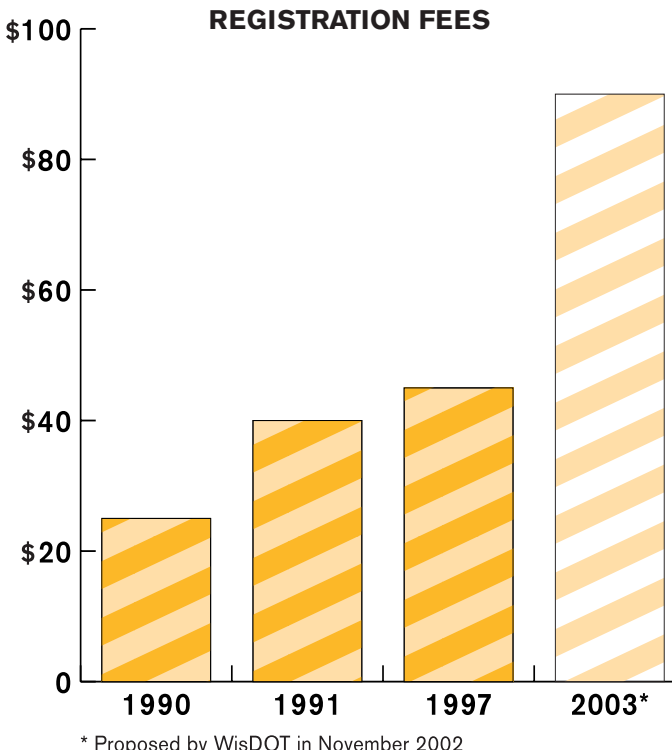
Gas tax sales exemption – Revenue not paid to General Purpose Revenue Fund.

State sales tax revenue goes into the General Purpose Revenue Fund. Gasoline is exempt from sales taxes, 5.0% at the state level and an additional 0.5% in some counties.¹³ If the state collected sales taxes on gasoline, it would have totaled more than \$150 million when applied to the more than \$3 billion in motor fuel purchased in 2002.¹⁴ [See Sales Tax on Gasoline in Appendix 2.]

WisDOT wants to double Motor Vehicle Registration fees. Yet, it already increased them by 80% in the 1990s.

In its 2003-05 Budget Proposal, WisDOT proposed doubling the Motor Vehicle Registration Fee from its current \$45 level to \$90.¹⁵ The fee was increased by \$15 in 1991 and another \$5 in 1997 – totaling a \$20 increase, up 80% from the 1990 level of \$25.¹⁶ The revenue generated by Motor Vehicle Registration Fees is used first to pay off debt from Major Highway Projects, and the remainder is kept in the Segregated Transportation Fund for WisDOT's use. WisDOT seeks

to increase the fees because in the last 15 years it has taken on so much debt to pay for Major Highway Projects that it cannot afford to issue any new bonds unless it secures more Motor Vehicle Registration Fee revenues to guarantee them. At its current \$45 level, Wisconsin's registration fee is the second lowest of its Midwestern neighbors – Illinois, Indiana, Iowa, Michigan and Minnesota.¹⁷ [There is more discussion of debt on the following page in "WisDOT's Debt" section]



Truck Fees – Former Secretary Carlsen says trucks do the damage but don't pay for it.

In a recent interview, former WisDOT Secretary Carlsen said, "The weight per axle that a truck carries across the roadway system does most of the damage to the roads. If we didn't have trucks on roads, roads would last almost forever. Trucks cause the deterioration of roadways."¹⁸ In its State Highway Plan 2020, WisDOT has indicated that much of the highway system is deteriorating.¹⁹ Trucks, however, are not paying their fair share for the needed repair.

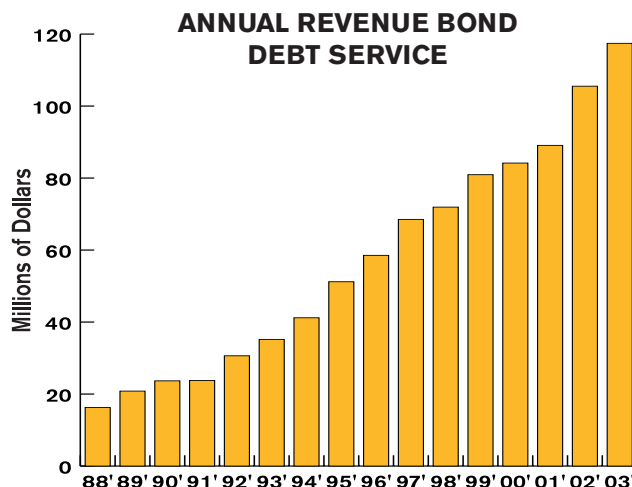
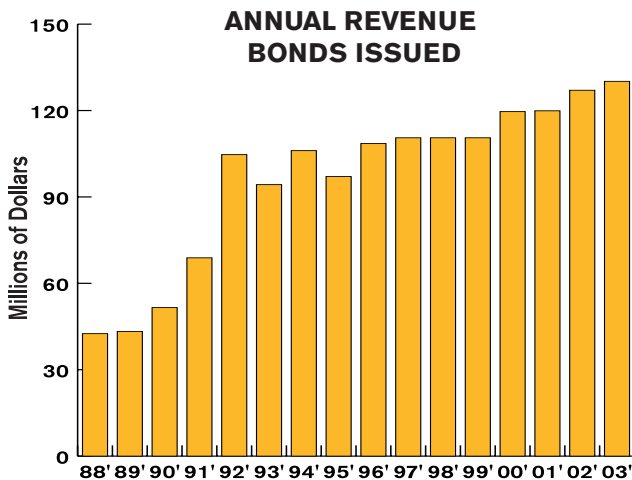


WisDOT's Debt

In the last 15 years WisDOT has nearly doubled its dependence on funding from bonds. Payments on its debt have also more than tripled in that same time and, if that rate of increase continues, will exceed \$1 billion annually by 2020.

Since 1988, WisDOT has borrowed more than \$1.6 billion – more than \$1 billion was still outstanding in mid-2002 – most of which carries 5% interest and must be repaid in 20 years.^{20,21} More than \$1.5 billion of this debt has gone to pay for Major Highway Projects – \$130 million in 2003 alone.²² Accounting for inflation, WisDOT borrowed 95% more in 2003 than in 1988.²³ WisDOT's annual payment on its debt has grown from \$39 million to \$123 million in that same time, a 210% increase.²⁴ [See WisDOT Debt in Appendix 2]

WisDOT issues two types of bonds: revenue bonds, which are guaranteed by registration fees, to pay off Major Highway Project costs, and general obligation bonds to pay for rail and harbor improvements. General obligation bonds have shrunk to less than 5% of WisDOT's debt service.²⁵ Revenue bonds make up more than 95% of current debt service paid and, if WisDOT's trend of spending



“At current bonding levels, debt service is expected to continue to rise, limiting funds available for other programs.”

– *Wisconsin Taxpayers Alliance*

The Wisconsin Taxpayer, “Transportation Financing in Wisconsin.”

14.4% more on them each year continues its 15-year trend, annual debt payments will skyrocket from \$117 million to \$1.6 billion between now and the year 2020.²⁶ [See WisDOT Debt in Appendix 2]

A concern recently expressed by former WisDOT Secretary Carlsen is that WisDOT's revenue bond rating might drop, which will lead to an increase in interest rates.²⁷

The bonds' current rating is based on a 3:1 ratio of registration fee revenue to debt service. However, this ratio is in jeopardy of dropping below 2.5:1, which may partly explain WisDOT's recent request for a registration fee increase. If WisDOT continues to increase its bonding, then similar fee increases will have to follow to maintain the bond rating in the future.

WisDOT’s Budgeting and Expenditures

In 1996 the Legislative Audit Bureau determined that WisDOT faced a financial crisis. WisDOT and the Legislature chose to pursue tax increases rather than spending cuts, and the crisis only worsened.

According to the Legislative Audit Bureau report, “the Legislature is faced with several difficult decisions: allow the existing transportation system to deteriorate; redirect highway spending priorities to emphasize preservation and existing roads, rather than expand the highway system or develop other modes of transportation; or increase revenues to meet demand.”²⁸



WisDOT and the Legislature have chosen one of these options: to seek increased revenues in the form of a statutory gas tax increase in 1997, in addition to increases from indexing, as well as a Motor Vehicle Registration Fee increase. WisDOT did not redirect highway spending to repair; instead, it increased both highway spending and bonding. [See 1996 Legislative Audit Bureau Report in Appendix 1.]

When proposing a project, WisDOT only accounts for the up-front project costs rather than for expenses over the entire life cycle of the project.

WisDOT does not budget for the life cycle of a project. Currently, project costs consist only of planning, design and construction. Roads and highways need regular maintenance and periodic repair work and WisDOT should anticipate the schedule for these. However, these costs are not included in WisDOT’s project estimate. The life-cycle costs for replacing a highway are predictable. Total reconstruction needs to occur every 45-60 years, but WisDOT’s rehabilitation budget does not reflect this known cost. [See Life Cycle Costing in Appendix 1.]

This practice is analogous to spending all of the transportation money you budget for the year on car payments while neglecting the known costs of insurance, gasoline, oil changes, and regular maintenance, much less unexpected problems such as deductibles for accidents. Further, to spend money on expansion projects instead of saving for known future reconstruction expenses is analogous to spending money on adding features to a second family car without saving for the replacement cost of the first car when it dies.

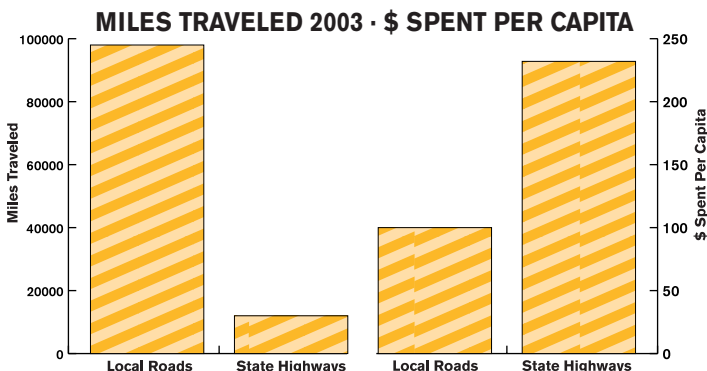
The Major Highway Project approval process includes virtually no fiscal restraint and limited critical analysis of WisDOT proposals.

The Major Project Approval Process includes project development by WisDOT, a review and recommendation by the Transportation Projects Commission (TPC), and then approval by the Legislature and Governor.²⁹ Since its formation in 1983, the TPC – which deals exclusively with Major Highway Projects – had recommended approval for each and every project that WisDOT proposed through 1997.^{30,31} In 1998, the TPC did not meet because funding shortfalls were expected, but that did not stop the Legislature and former Governor Thompson from adding additional

projects for enumeration anyway.³² In December 2002, the TPC again declined to approve any projects because of expected funding shortfalls. It remains to be seen whether the current budget process will again include projects for enumeration anyway. The Major Highway Project approval process is unique in state government – it is the only process whereby a project is approved before knowing how the agency will pay for it. [See Major Highway Project Approval Process in Appendix 1.]

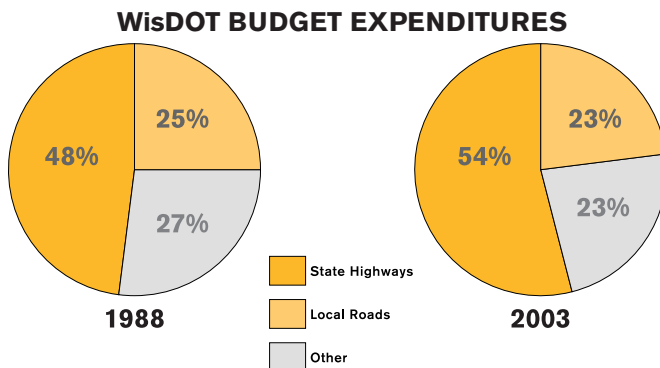
There are eight times as many miles of local roads as there are miles of state highways. Yet, WisDOT funds state highways at twice the rate of local roads.*

WisDOT spent \$232 per capita on state highways and just \$100 per capita on local roads in 2003.³³ Yet, there are 98,000 miles of local roads and just 12,000 miles of state highway.³⁴ WisDOT indicates that 60% of all traffic travels on state highways; but it uses a measure of traffic called Vehicle Miles Traveled (VMT.) VMT in isolation is an inadequate measure of traffic because it strongly biases against local roads in favor of state highways. [See VMT sidebar page 10.]



The disparity between WisDOT's level of spending on state highways versus local roads has increased in the last 15 years.

State highways are consuming increasingly more of WisDOT's budget. Between 1988 and 2003, the state highway portion of WisDOT's budget increased from 48% to 54%.³⁵ In the same period the share for local roads decreased from 25% to 23% of WisDOT's budget.



The major reason for the increase in state highway funding is that Major Highway Projects have increased by 101% and debt service for revenue bonds has increased 360%.³⁷ [See State Highways versus Local Roads in Appendix 2.]

November 2002: WisDOT proposes increasing fees \$420 million ... December 2002: WisDOT proposes cutting local aids even further.

When faced with the current fiscal crisis, WisDOT's first proposal for the 2003-05 Budget (released November 2002) called for more than \$420 million in fee and license increases to pay for increases in many of its programs.³⁸ After this proposal was rejected, in order to maintain Major Highway Projects and expansion work, WisDOT proposed cutting 6% from State Highway Rehabilitation, General Transportation Aids, Transit Funding, and Local Road Improvements. The second proposal did not include any cuts of the Major Highway Projects program.³⁹ Even in tight economic times, WisDOT's pattern of building and expanding state highways at the expense of local roads continues.

* In this report, the money spent on state highways includes both WisDOT's State Highways category, as well as Debt Service on Revenue Bonds – since they are used to pay off Major Highway Projects. Local roads includes the Local Roads and Bridges Program and General Transportation Aids.

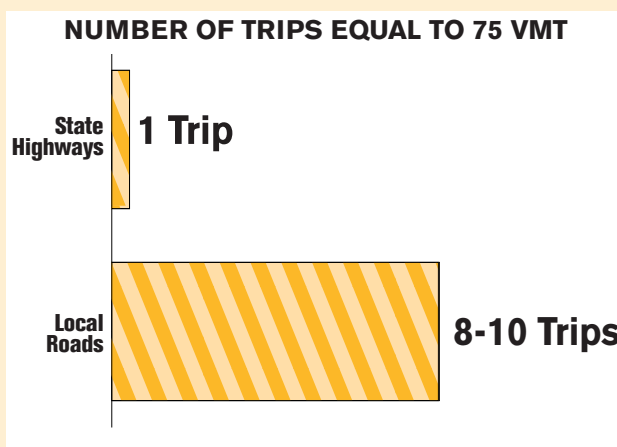
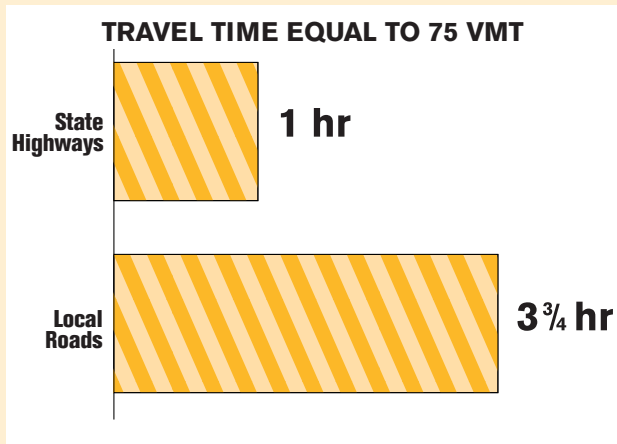
VMT *Vehicle Miles Traveled is a measure of the miles a vehicle travels on a certain road – not a measure of the frequency of use for a road or the amount of time spent by road users in their cars on that road. Using VMT as a measure of traffic ensures that the roads with the fastest speed limits – the state highway system – will appear to have the highest rates of traffic.*

For example, a morning trip from Madison to Milwaukee on a state highway results in 75 VMT. This calculation assumes the trip is approximately 75 miles and, at an average of 60 miles per hour (mph), takes 75 minutes. In order to equal the 75 VMT created by a highway trip from Madison to Milwaukee, it would take three and three-quarter hours commuting or running errands around town at an average of 20 mph to result in the same VMT. Thus, it would take more than an hour a day of driving around town at an average of 20 mph every day for a week to equal the VMT produced by one round trip from Madison to Milwaukee. One weekend trip from Madison or Milwaukee to Superior or a cabin up north could easily result in as many or more VMT as a month's worth of errands and commutes.

In the same time that one trip from Madison to Milwaukee results in 75 VMT, as many as eight or ten local trips that only result in 75 VMT could be made. For example, 24 trips taken over three days' driving - consisting of a 15 minute, five-mile commute each way to work and 45 minutes of driving to run three errands (six trips – two per errand) at an average of 20 miles per

hour each day– result in a total of 75 VMT. The Madison to Milwaukee trip is one trip of 75 minutes with 75 VMT. Again, a hundred or more daily trips commuting or running errands could easily result in less VMT than in one trip from Madison or Milwaukee to Superior or a cabin up north.

The problem with VMT: Using VMT instead of time spent on a road or trips taken on a road, results in much higher percentages of 'traffic' on roads with higher speed limits, which are, on the whole, state highways. As a justification for distributing transportation funding, using VMT in isolation is clearly biased against local roads, the roads on which Wisconsin residents spend the bulk of their driving time and upon which they make most of their trips. An additional problem with using only VMT is that it focuses on accommodating driving farther distances rather than increasing local accessibility by building compact communities, for instance.

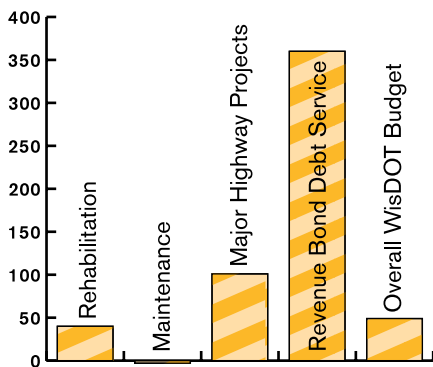


WisDOT funds expansion at the expense of repair (Part I): It uses a lexicon that clouds what it spends our money on and impedes scrutiny by legislators and citizens.

Compounding the difficulty of understanding the already complicated system of funding for highway maintenance, repair and expansion, WisDOT uses a vocabulary that confuses many who wish to know how WisDOT is spending our tax dollars. An analysis of how much bigger the highway system has grown in the last 15 years and how much that has cost us should be fairly straightforward, but in practice is extremely difficult to do. [See WisDOT's lexicon in Appendix 1, as well as definitions of key terms in the Glossary.]

WisDOT funds expansion at the expense of repair (Part II): Confusing language or not, WisDOT's disproportionate focus on highway expansion is obvious.

PERCENT INCREASE 1988-2003



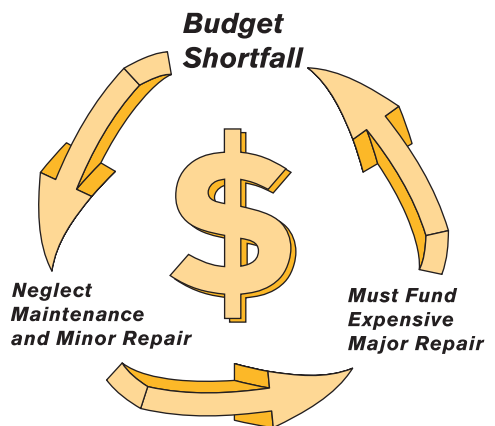
Even when taking WisDOT's own language at face value, its spending has disproportionately focused on expansion projects. In 2003, WisDOT spent 28% of its highway budget on the Major Highway Projects program – which includes many of the most costly expansion projects – and debt service on revenue bonds to pay for Major Highway Projects.⁴⁰ In the period from 1988 to 2003, WisDOT spending on Major Highway Projects has increased 101% and spending on debt service for revenue bonds used to pay for prior Major

Highway Projects has increased 360%.⁴¹ Meanwhile, spending on Rehabilitation has increased only 40% (less than both the State Highways Budget and WisDOT's overall budget), and spending on the Maintenance Projects has actually decreased 3%.⁴² [See Expansion versus Repair in Appendix 2.]

WisDOT funds expansion at the expense of repair (Part III): Its prioritization of highway expansion has led to substantial debt, overdue maintenance and repair, and an increasing amount of highways that must be maintained, repaired and replaced in the future.

By spending a disproportionately high amount on highway expansion, WisDOT has created a spending cycle with potentially dire consequences – existing highways and roads in worse conditions, increasing costs for repair, and increasing debt. Expansion means that demands for maintenance and repair will increase in the future because the system is larger. If regular maintenance is neglected, then minor repair is necessary sooner; and if minor repair is neglected, then major repair becomes imperative.

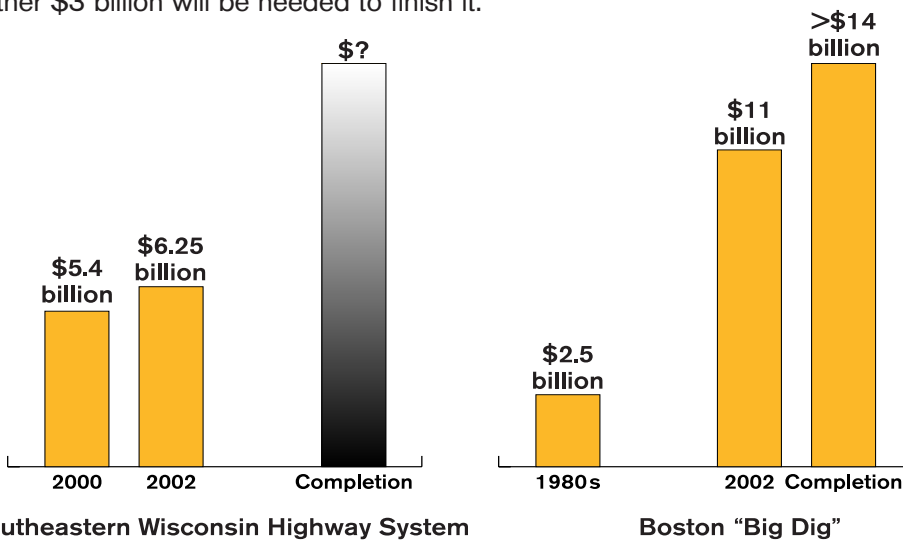
Major repair is more expensive than minor repair, which is more expensive than maintenance. Yet, once the need arises, major repair on highway A cannot be neglected because of safety concerns, therefore minor repair and maintenance on highway B are then neglected. This leads to the need for major repair on highway B in the future – a cycle illustrated by WisDOT's most recent budget proposal to cut local aid and rehabilitation in order to



rebuild the Marquette Interchange. Meanwhile, maintenance spending has decreased, rehabilitation spending has not kept pace with the rest of the budget, and Major Highway Projects and debt service to pay for them are skyrocketing. WisDOT projects massive rehabilitation needs throughout the state over the next 15-20 years.⁴³ Considering that the average lifespan of a highway is known, WisDOT should have recognized that it was spending tomorrow's maintenance, repair and reconstruction budget on expansion today.

WisDOT funds expansion at the expense of repair (Part IV): A future example: the Southeastern Wisconsin highway system rehabilitation. By February 2000, the project scope for the Southeastern Wisconsin highway system rehabilitation had grown and the cost estimate was \$5.4 billion. In October 2002, SEWRPC proposed a \$6.25 billion plan. By the time the project is finished, what will the cost be?

Most of the Southeastern Wisconsin highway system was built in the 1960s and 1970s.⁴⁴ Without a doubt, it is nearing the end of its useful life and is in need of rehabilitation. However, the plan that the Southeastern Wisconsin Regional Planning Commission (SEWRPC) has proposed is too expensive. In the February 2000 State Highway Plan 2020, WisDOT recommended spending \$5.4 billion on system rehabilitation and expansion.⁴⁵ By October 2002, the plan developed by SEWRPC recommended \$6.25 billion in spending, including more than \$700 million to pay for the proposed 127 miles of expansion.⁴⁶ This pattern parallels that of the so-called 'Big Dig' in Boston. Initial estimates in the mid-1980's put the cost at \$2.5 billion.⁴⁷ As of October 2002, more than \$11 billion has already been spent on it, and a recent finance plan indicates that at least another \$3 billion will be needed to finish it.⁴⁸



SEWRPC's plan is extremely costly. Without including debt service and inflationary increases, it amounts to more than \$1100 per capita per current Wisconsin resident. Moreover, there is no guarantee that it will adequately address the problems that currently exist. SEWRPC's highway expansion plan is not reflected in its regional plan. It appears to violate core planning principles, its citizen involvement component was not sufficient, and the scope of the study was limited.⁴⁹ Further concerns include: the most up-to-date methods for congestion analysis were not used; negative air quality impacts are underestimated; the relationship between transportation and land use is not accounted for sufficiently; and there is little analysis of crashes, their causes, and the benefits of planned reconstruction measures.⁵⁰ SEWRPC cannot demonstrate that spending \$6.25 billion on this plan will not put us in the same situation that we are in right now.

A Proposal for WisTEA: Wisconsin Transportation Efficiency Act

Wisconsin needs a comprehensive transportation policy reform similar to the reforms seen at the Federal level over the last 15 years. To this end, 1000 Friends of Wisconsin has designed the following fiscal policy reform package – the Wisconsin Transportation Efficiency Act (WisTEA). Our goal is to help bring Wisconsin into line with Federal policy reforms that were enacted in the 1990s through the Intermodal Surface Transportation Efficiency Act (ISTEA) and the Transportation Equity Act for the 21st Century (TEA-21).

This reform package consists of three pieces: Audits, Funding Reforms, and Budget and Expenditure Reforms. Each of the measures included in this package will help increase WisDOT's accountability to the Legislature, Governor and the citizens of Wisconsin. They also aim to ensure that the maintenance, repair and improvement of our transportation system is done in the most efficient and cost effective manner so that the system meets the present and future needs of Wisconsin's citizens.

Audits

Audit WisDOT

On February 5, 2003, the Wisconsin Legislature's Joint Committee on Audits voted unanimously to audit the Major Highway Project program. This action is a commendable and fiscally responsible first step. However, problems with WisDOT's funding and expenditures extend beyond the Major Highway Projects. In addition to this audit, 1000 Friends recommends the following:

Require regular audits of WisDOT by an independent review board, possibly the Legislative Audit Bureau. The first audit should study WisDOT's spending practices over the last 15 to 20 years. The audit should address:

- Spending distribution within subcategories of rehabilitation, local capital assistance, and local transportation aids.
- How program funding has changed over time – which programs have increased at the rate of inflation, above inflation and below inflation.
- How changes in program definitions or qualifications have disguised funding shifts; and estimated project costs versus actual project costs.
- Bidding and contract award practices.

Audit SEWRPC's proposal for the Southeastern Wisconsin highway reconstruction addressing both funding and function

SEWRPC's plans for the Southeastern Wisconsin highway system as a whole – as well as WisDOT's plan for the Marquette Interchange - are unaffordable and the benefits have not been sufficiently demonstrated with respect to their substantial costs. No one argues that repair needs should go unaddressed. However, they must be addressed so that repairs meet the present and future needs of Wisconsin citizens.

Institute a temporary moratorium on new debt and audit Major Highway Projects

Implement a moratorium on issuing new revenue bonds until the results of an independent audit have been released and evaluated. Re-evaluate the schedule of enumerated and proposed Major Highway Projects in order to focus on maintenance, repair and reconstruction.

Funding Reforms

Repeal Gas Tax Indexing

Automatically indexing the gas tax raises this tax by an amount so small that it has no impact on reducing driving or fossil fuel consumption, but it generates millions of dollars for road building. There is no other system of automatic tax rate adjustments anywhere in state or local government. Repealing gas tax indexing means that the road-building lobby will have to argue the merits of higher taxes for more roads each year before the Legislature, just as other interest groups must do for every other state program.

Maintain car and light truck fees but increase truck fees to equitably tax those who cause the worst damage to the roads

- Increase truck fees so that they are commensurate with the proportion of damage they cause to roadways.
- Study enhancing and expanding the freight rail network.

Replace the TPC with a reconfigured review board

Replace the Transportation Projects Commission (TPC) with a Transportation Projects Impact Review Board. The TPC currently includes the Governor, five senators, five assembly members, and three citizens, as well as the Secretary of WisDOT, who is a non-voting member.⁵¹ This board should include a more balanced representation of transportation stakeholders including municipal leaders, social and environmental advocates, and transit advocates.

Budgeting and Expenditure Reforms

Implement life-cycle costing

The cost estimate for each project considered by WisDOT should include not only the capital costs, but also the costs associated with the life of the project, such as routine maintenance, resurfacing, reconditioning and reconstruction. Predictable replacement should be accounted for before the addition of new structures, facilities or capacity.

Create a Life Cycle Trust Fund

An investment account should be created that will fund the maintenance and repair needs for Wisconsin's roadways. Each budget should involve depositing money into this 'Life Cycle Trust Fund' to build a base for the future. Any expansion project should include funding for this account so that the increased burden of maintenance and repair is accounted for through this investment at the time of construction.

Revise WisDOT lexicon and increase transparency

Revise state highway program definitions such as Major Highway Project, rehabilitation, etc., so that the Legislature and citizens can understand how their tax dollars are being spent on transportation. In particular, repair work should be more clearly distinguished and accounted for separately from expansion work.

Fix-it-first - Prioritize repair over expansion

WisDOT should enact a ‘fix-it-first’ policy that requires each WisDOT budget to cover all identified repair and maintenance needs, at both the state and local levels, before funding any new expansion projects.

Institute a ‘Fair Share for Local Governments’ program

- Reorganize transportation planning and funding priorities to reflect the importance of local transportation systems to the state.
- Guarantee state funding for at least 50% of combined local road maintenance and repair costs.
- Review and implement a combination of traffic measures – vehicle miles traveled, time spent on the roadways and trip frequency. A combination of the measures should be used to assist in determining funding allocation for different types of roadways.



Appendix 1: Background Data

Gas Tax History [From page 5]

The motor fuel tax, also known as the gas tax, generated \$890.70 million in revenue for WisDOT's segregated fund in 2003.⁵² The gas tax was created in 1925 at a rate of 2 cents per gallon in order to generate funding for highway programs from highway users rather than the general public.⁵³ It was increased statutorily seven times between 1925 and 1985, bringing the rate to 16.0 cents per gallon.⁵⁴ In the 1983-85 budget, the Legislature created an automatic annual gas tax increase, also called gas tax indexing. Since then, indexing has resulted in an increase of 9.1 cents per gallon. When automatic indexing is combined with a two-cent statutory increase in 1987 and a one-cent statutory increase in 1997 it brings the current gas tax rate to 28.1 cents per gallon.⁵⁵ Between 1985 and 1997, indexing was tied to inflation and consumption, which meant that the annual increase received an extra boost if consumption rose – it rose by 40% between 1982 and 1999 – but suffered if consumption decreased.⁵⁶

1996 Legislative Audit Bureau report [From page 8]

In December 1996 the Legislative Audit Bureau released the findings of an audit of WisDOT mandated by the Legislature's Joint Committee on Audit in 1995.⁵⁷ Its key findings included: 1) WisDOT's spending had increased 21.7% over inflation between 1986 and 1996; 2) the Wisconsin highway system is in good condition relative to neighboring states, as well as nationally, and that local mass transit systems and local roads are relatively well-funded compared to other states; and 3) that in spite of the good level of support, the existing revenue structure would not support future needs. Further, the audit raised concerns regarding the high level of bonding for major projects.

Life Cycle Costing [From page 8]

In the 2001-2002 Legislative Session, Senators Cowles, Hansen and Huelsman, as well as Representatives Olsen, Albers, Black, Ryba, Miller, La Fave, and Berceau introduced Senate Bill 444. This bill would have required "life cycle cost statements for major highway projects recommended for enumeration."⁵⁸

Major Highway Project Approval Process [From page 9]

All Major Highway Projects must be legislatively enumerated in the state statutes through a four-step process. The process begins with WisDOT, under the advisement of the 15-member Transportation Projects Commission (TPC), proposing major highway projects for enumeration. Then, the TPC is supposed to meet before each budget cycle to analyze the projects, approve those with the most merit and reject or delay those with less merit. Except for 1998 and 2002, the TPC has recommended each and every proposed project. It did not recommend any projects in 1998 or 2002 because a provision of the 1997-99 budget bill prevented the TPC from enumerating projects if there was not sufficient funding available to begin them within six years. The 1996 Legislative Audit Bureau report proposed that the limitation require an eight-year horizon.⁵⁹

Following the TPC's recommendations for enumeration, the Legislature then votes on the projects. Similar to the TPC, the Legislature has approved each and every proposed project. Finally, the Governor has the chance to approve or veto the projects approved by the legislature. The Governor has also approved every project as well.

In 1998 the TPC did not meet because of expected funding shortfalls, yet the Legislature and former Governor Thompson each added projects for enumeration

despite the TPC's inaction.⁶⁰ It remains to be seen what the Legislature and Governor will do in the 2003-05 budget following the TPC's refusal to recommend projects in 2002.

WisDOT's lexicon [From page 11]

The language used by WisDOT in discussing the different types of highway work is confusing and can be a major impediment to understanding how WisDOT's spending on highways is distributed. The key terms are Maintenance, Major Highway Projects, and Rehabilitation. Rehabilitation is sub-classified into the '3 R's:' Resurfacing, Reconditioning, and Reconstruction. Each of these six terms is technically defined and that language can be found in the glossary of this report. Conceptually, these types of highway work fall within a spectrum, ranging from Maintenance Projects, which are generally the least complicated and costly, to Major Highway Projects, which are the most complicated and expensive. Rehabilitation Projects comprise the middle range and within the subsets of Rehabilitation, Resurfacing Projects are generally the least expensive and complicated, followed by Reconditioning Projects, with Reconstruction Projects generally the most expensive and complicated.

The major problem with WisDOT's system of project classification is that it does not delineate clearly enough the difference between projects that involve maintenance and

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repair of existing roads and highways and those projects that involve road and highway expansion. This is a subtle, but very important distinction. Defining and categorizing projects in this current manner clouds WisDOT's spending practices. For example, projects ranging from resurfacing a short segment of highway all the way up to a \$5 million reconstruction involving the addition of up to five miles of multiple highway-lanes fall within the Rehabilitation Program. And since, in its publications, WisDOT generally categorizes spending under the general heading Rehabilitation, and not the subsets of Resurfacing, Reconditioning, and Reconstruction, it is difficult to determine how the Rehabilitation budget is spent.

Also available from WisDOT is information on spending for expansion. In the Wisconsin State Highway Plan 2020, however, expansion is specifically defined as including "the same types of work associated with reconstruction, but also involves the construction of additional through travel lanes."⁶¹ Under this definition, WisDOT spent \$11.3 million on expansion in 2002.⁶² As a point of comparison, according to the 2002-2007 Highway Improvement Plan in just one of the eight WisDOT regional districts, District 1, there was more than \$25 million planned for projects to "widen the roadway" or "increase capacity" – and that does not include other projects in which the terminology used was less explicit.⁶³ That is an average of \$4 million per year for one district and if other districts' figures are comparable, this would equal more than \$30 million in expansion spending per year. Granted, the comparison above may not be 'apples to apples' – and, the point is not that WisDOT is attempting to deceive the public. Instead, this comparison illustrates that the terminology that WisDOT uses is not accessible, it deters the layperson from analyzing WisDOT spending and – given the controversy often associated with highway projects – it creates the impression that the lack of transparency may be intentional.

Appendix 2: Calculations

Gas Tax Indexing [From page 5]

“Since then the gas tax has increased 57%.” – Gas tax increased from 16.0 cents per gallon (1985) up to 28.1 cents per gallon (2002). This calculation excludes the 3 cents worth of statutory increases since 1985 for a total increase of 9.1 cents. 9.1 cents divided by 16.0 cents equals 57%.

“Since 1988 the gas tax rate has increased by 36%, yet gas tax revenues have increased 82%.” – The gas tax rate in 1988 was 20.9 cents per gallon and increased to 28.1 cents per gallon by 2002. This calculation discounts the 1-cent statutory increase in 1997 for a total increase of 6.2 cents. 6.2 cents divided by 20.9 cents equals 30%. Gas tax revenues in the same period increased from \$490 million to \$891 million, an 82% increase.

“Even if gas tax indexing had not been implemented, annual revenue from the gas tax still would have increased more than \$150 million between 1988 and 2003.” – The \$891 million collected in gas tax revenues in 2003 resulted from a gas tax of 28.1 cents per gallon. By dividing \$891 by .281, the gas tax rate, the gallons of gasoline consumed was 3.17 billion. Then applying the 20.9 cents per gallon rate to the 3.170 billion gallons results in \$663 million in gas tax revenues had the gas tax not increased from 1988 to 2003. Subtracting the 1988 gas tax revenues – \$490 million – from the 2003 gas tax revenues had the tax still been at 20.9 cents per gallon – \$663 million – equals \$172 million more in gas tax revenue.

Sales Tax on Gasoline [From page 5]

“If there were a state sales tax on gasoline, it would have totaled more than \$150 million when applied to the more than \$3 billion in motor fuel purchased in 2002.” – In 2002, Wisconsin collected \$848.31 million from gas tax revenues and the gas tax was 28.1 cents per gallon. Dividing \$848.21 million in gas tax revenue by 0.281, the total gallons of gasoline consumed equals 3.02 billion gallons consumed. Assuming a gallon of gasoline costs just one dollar – a low estimate – then \$3.02 billion was spent on \$3.02 billion gallons of gasoline. If the 5 percent sales tax were applied to this \$3.02 billion in gas tax revenue then the sales tax revenue would equal an extra \$159 million.

WisDOT’s Debt [From page 7]

“Since 1988, WisDOT has borrowed more than \$1.6 billion – most of which carries 5% interest and must be repaid.” – Using WisDOT’s “Transportation Budget Trends” document, page 12 – State Transportation Budget by Source of Funds: Bond Funds. The annual bond funds were summed for the period 1988 to 2003 equaling \$1.696 billion.

“More than \$1.5 billion of this debt has gone to pay for Major Highway Projects – \$130 million in 2003 alone.” – Using WisDOT’s “Transportation Budget Trends” document, page 14 – Major Highway Development by Source of Funds: Bond Funds. The annual debt service on revenue bonds was summed for the period 1988 to 2003 equaling \$1.54 billion.

“Accounting for inflation, WisDOT borrowed 98% more in 2003 than in 1988.” – Using WisDOT’s “Transportation Budget Trends” document, page 15 – Major Highway Development by Source of Funds (constant 2001 dollars, millions): Bond Funds. In 2003, bond funds were used for \$125.35 million of Major Highway Projects and in 1988 were used for \$64.29 million – an increase of \$61.06 million. \$61.06 million is 95% of \$64.29 million.

“WisDOT’s annual payment on its debt has grown from \$39 million to \$123 million in that same time, a 210% increase.” – Using WisDOT’s “Transportation Budget Trends,” page 55 – Bonding Debt Service: Total. \$39.47 million in debt service was paid in 1988 and \$122.61 million in debt service was paid in 2003.

“General obligation bonds have shrunk to less than 5% of WisDOT’s debt service.” – Using WisDOT’s “Transportation Budget Trends,” page 55 – Bonding Debt Service: General obligations Bonds and Total. Debt service for general obligation bonds was

\$5.18 million out of a total \$122.61 million in debt service in 2003. \$5.18 million is 4.2% of \$122.61 million.

“Revenue bonds make up more than 95% of current debt service paid and if WisDOT’s trend of spending 14.4% more on them each year continues as it has for the last 15 years, annual debt payments will skyrocket from \$117 million to \$1.6 billion for the year 2020.” – Using WisDOT’s “Transportation Budget Trends,” page 55 – Bonding Debt Service Revenue Bonds and Total. Debt service for revenue bonds was \$117.43 million out of a total \$122.61 million in debt service in 2003. \$5.18 million is 95.8% of \$122.61 million. The annual 14.4% increase results from calculating the annual rate of increase for debt service on revenue bonds and averaging them. Then, the 14.4% annual increase was applied to the current \$117.43 million debt service on revenue bonds.

State Highways versus Local Roads [From page 10]

“Between 1988 and 2003, the state highway portion of WisDOT’s budget increased from 48% to 54%.” – Using WisDOT’s “Transportation Budget Trends.” In 1988, State Highways (\$473.36 million) and revenue bond debt service (\$16.27 million) together totaled \$489.63 million out of a total budget of \$1011.7 million – or 48.4%. In 2003, State Highways (\$1147.55 million) and revenue bond debt service (\$117.43 million) together totaled \$1264.98 million out of a total budget of \$2363.68 million – or 53.5%.

“In the same period local roads decreased from 25% to 23% of WisDOT’s budget. – Using WisDOT’s “Transportation Budget Trends.” In 1988, Local Roads and Bridges (\$61.86 million) and General Transportation Aids (\$187.58 million) totaled \$249.44 million of the \$1011.7 million total budget – or 24.6%. In 2003, Local Roads and Bridges (\$181.51 million) and General Transportation Aids (\$366.16 million) totaled \$547.67 million of the \$2363.68 million total budget – or 23.2%

“The major reasons for the increase in state highways is that Major Highway Projects have increased by 101% and debt service for revenue bonds has increased 360%.” – Using WisDOT’s “Transportation Budget Trends.” For this calculation, inflation was accounted for by using WisDOT’s 2001 nominal dollars figures on pages 15 and 56. Major Highway Projects funding grew from \$115.57 million in 1988 to \$232.72 million in 2003 – a 101.4 % increase. Debt service for revenue bonds grew from \$24.59 million in 1988 to \$113.10 million in 2003 – a 359.9% increase.

Expansion versus Repair [From page 11]

“In 2003, WisDOT spent 28% of its highway budget on the Major Highway Projects program – which includes many of the most costly expansion projects – and debt service on revenue bonds to pay for Major Highway Projects.” – Using WisDOT’s “Transportation Budget Trends.” In 2003, spending on Major Highway Projects (\$241.62 million) and debt service for revenue bonds (\$117.43) totaled \$359.05 million of the \$1264.98 total highway budget, state highways plus revenue bond debt service. Thus Major Highway Projects plus debt service for revenue bonds equals 28.4% of the state highway budget.

“In the period from 1988 to 2003, WisDOT spending on Major Highway Projects has increased 101% and spending on debt service for revenue bonds used to pay for prior Major Highway Projects has increased 360%.” – Using WisDOT’s “Transportation Budget Trends.” For this calculation, inflation was accounted for by using WisDOT’s 2001 nominal dollars figures on pages 15 and 56. Major Highway Projects funding grew from \$115.57 million in 1988 to \$232.72 million in 2003 – a 101.4% increase. Debt service for revenue bonds grew from \$24.59 million in 1988 to \$113.10 million in 2003 – a 359.9% increase.

“Meanwhile, spending on Rehabilitation has increased only 40%, less than both the State Highways Budget and WisDOT’s overall budget, and spending on Maintenance has actually decreased 3%.” – Using WisDOT’s “Transportation Budget Trends.” For this calculation, inflation was accounted for by using WisDOT’s 2001 nominal dollars figures on pages 20 and 23. Rehabilitation funding grew from \$416.53 million in 1988 to \$582.60 million in 2003 – a 39.8% increase. Maintenance funding decreased from \$160.5 million in 1988 to \$155.5 million in 2003 – a 3.1% decrease.

Glossary

General Obligation Bonds – are bonds backed by the “full faith and credit” of the State of Wisconsin. Prior to the mid-1980’s they were used for highways. Since then they have been used for rail and harbor improvements.⁶⁴

General Transportation Aids – “The General Transportation Aids program is the largest in WisDOT’s budget. It returns to local governments roughly 30% of all state-collected transportation revenues. Under this program 1,922 local governments (all counties, cities, villages and towns) receive quarterly payments based on local road mileage and aidable costs. Aidable local costs generally include the local share of all road and street construction and maintenance costs within the roadway rights of way. Expenditures for county forest roads are aided under another, separate program.”⁶⁵

The Intermodal Surface Transportation Efficiency Act (ISTEA) – The Intermodal Surface Transportation Efficiency Act was enacted into law by Congress in 1991 and authorized funding for highways, highway safety and mass transit for the period 1992-1997.⁶⁶ The following policy goals are some of the major features of the Act: focus federal resources on National Highway System roads integral to interstate travel and national defense; give states and local governments more flexibility in making transportation choices; continue to fund mass transit; and authorize the use of highway funds for activities to enhance the environment and fund other modes.

Local Roads and Bridges Program – comprises “the largest share of transportation capital assistance programs. There are three primary components of the Local Roads and Bridges Program: (1) state and federal funding for bridge replacement; (2) federal aid for rehabilitation of local roads and streets; and (3) a state funded Local Road Improvement Program (LRIP) created by the 1991-93 Biennial Budget, in part to encourage the improvement of roads not eligible for federal aid.”⁶⁷

Maintenance – “General maintenance activities include the application of protective coatings, the removal and control of snow, the removal, treatment and sanding of ice, interim repair of highway surfaces and adjacent structures, and all other operations, activities and processes required on a continuing basis for the preservation of the highways on the state trunk system, and including the care and protection of trees and other roadside vegetation and suitable planting to prevent soil erosion or to beautify highways pursuant to 80.01 (30), and all measures deemed necessary to provide adequate traffic service. Special maintenance activities include the restoration, reinforcement, complete repair or other activities which the department deems are necessary on an individual basis for specified portions of the state trunk highway system.”⁶⁸

Major Highway Project – “means a project, except a project providing an approach to a bridge over a river that forms a boundary of the state, which has a total cost of more than \$5,000,000 and which involves any of the following:

1. Constructing a new highway 2.5 miles or more in length.
2. Reconstructing or reconditioning an existing highway by either of the following:
 - a. Relocating 2.5 miles or more of the existing highways;
 - b. Adding one or more lanes 5 miles or more in length to the existing highway.
3. Improving to freeway standards 10 miles or more of an existing divided highway having 2 or more lanes in either direction.”⁶⁹

Reconditioning - means work in addition to resurfacing. “Minor reconditioning” includes pavement widening and shoulder paving. “Major reconditioning” includes improvement of an isolated grade, curve, intersection or sight distance problem to improve safety. Major reconditioning projects may require additional property acquisition.⁷⁰

Reconstruction - means total rebuilding of an existing highway to improve maintainability, safety, geometrics, and traffic service. It is accomplished basically on existing alignment, and major elements may include flattening of hills and grades, improvement of curves, widening of the roadbed, and elimination or shielding of roadside obstacles. Normally reconstruction will require additional property acquisition.⁷¹

Rehabilitation - The State Highway Rehabilitation Program consists of the 3 R’s, resurfacing, reconditioning, and reconstruction, and “provides funding for safety improvements, upgrade of deteriorated pavement and roadway base, and modernization of state highways to meet current and projected travel needs.”⁷²

Revenue bonds - are used for highway development through the Major Highway Project Program and are guaranteed by Motor Vehicle Registration fees. Use of revenue bonds for major highway development began in 1986 and has continued annually.⁷³

Resurfacing - means placing a new surface on an existing highway to provide a better all-weather surface and a better riding surface, and to extend or renew the pavement life. It generally involves no improvement in capacity or geometrics. Resurfacing may include some elimination or shielding of roadside obstacles, culvert replacements, signals, marking, signing and intersection improvements. Usually no additional property acquisition is required except possible minor acquisition for drainage and intersection improvements.⁷⁴

The Transportation Equity Act for the 21st Century (TEA-21) - “The Transportation Equity Act for the 21st Century was enacted by Congress June 9, 1998 as Public Law 105-178. TEA-21 authorizes the Federal surface transportation programs for highways, highway safety, and transit for the 6-year period 1998-2003.”⁷⁵

Transportation Projects Commission - “In 1983 the Legislature created the Transportation Projects Commission (TPC) to evaluate the merits of candidate major projects and to recommend projects to the Governor and Legislature for statutory enumeration (i.e. authorization for construction). The TPC consists of fifteen members including: the Governor, three citizen members appointed by the Governor, five senators and five representatives appointed by the Legislature, and the secretary of transportation as a non-voting member. The commission’s responsibility is to review candidate major projects and recommend projects to the Governor and the Legislature for statutory enumeration.”⁷⁶

Wisconsin Department of Transportation (WisDOT) - “WisDOT supports all forms of transportation. The department is responsible for planning, building and maintaining Wisconsin’s network of state highways and Interstate highway system. The department shares the costs of building and operating county and local transportation systems – from highways to public transit and other modes. WisDOT plans, promotes and financially supports statewide air, rail and water transportation, as well as bicycle and pedestrian facilities. The department is made up of three executive offices and six divisions organized according to transportation function. WisDOT’s main office is located in Madison, but the department maintains district offices throughout the state as a way to preserve the local approach to transportation development and better serve customer needs.”⁷⁷

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