

# TRANSPORTATION REVENUES SPUTTER AMID PANDEMIC

*The surprise blow of COVID-19 has hammered key state transportation revenues, leaving them short of projections for the current two-year budget cycle and raising questions about whether they will fully rebound after the pandemic. Meanwhile, a paradigm shift appears underway in the transportation fund as vehicle fees may soon rival fuel taxes as its primary revenue source.*

The last 11 months markedly reduced the number of miles driven by Wisconsinites and all Americans, as many have worked from home, cut back on shopping or travel, or faced unemployment or personal economic crises as a result of the pandemic.

One consequence has been a hit to revenues that flow into the state's transportation fund, the primary source to pay for roads and other infrastructure. The fund's top revenue sources, fuel taxes and vehicle registration and title fees, fell short of projections by more than \$116 million combined in the 2020 fiscal year that ended June 30.

Compared to 2019 estimates, actual revenues from the motor vehicle fuel tax in fiscal year 2020 were down \$62.1 million, and gross revenues from registration and title fees were down \$54.2 million, according to the state's nonpartisan Legislative Fiscal Bureau.

The 2021 fiscal year is likely to increase the shortfall, though a coming infusion of federal transportation relief funds from a package enacted in December may erase part or all of this gap. A preliminary estimate in December from the American Association of State Highway and Transportation Officials (AASHTO) found it

would provide Wisconsin about \$188 million in transportation funding.

Taken together these developments, while consequential, are not catastrophic for a fund that took in more than \$2.1 billion in revenue in the last fiscal year, while beginning the two-year budget cycle with an unappropriated balance of about \$97 million.

But the future remains murky. Even if the virus is in retreat by late 2021, it remains unclear if more widespread adoption of remote work or online shopping may cause longer-term changes in travel patterns after July 1, the start of the next two-year budget cycle. This only compounds pre-pandemic concerns about how the fund is being affected by increasing vehicle fuel efficiency and the 2006 elimination of automatic gas tax increases that tracked the rate of inflation.

Future projections also show the continuation of a trend that has long been underway, but accelerated last year: the near-convergence of fuel tax and vehicle fees as top revenue sources for the state transportation fund. The question of how to grapple with these changes and uncertainties will underlie Gov. Tony Evers' forthcoming transportation budget proposal and state lawmakers' response.

**Table 1: Wisconsin Vehicle Fee Changes Adopted in 2019**

Fee Type	Detail	Previous	Current
Automobile Registration Fee	Cars, SUVs, vans	\$75	\$85
Truck Registration Fee	Light trucks weighing up to 6,000 pounds	\$75-\$84*	\$100
Hybrid-Electric Registration Fee	Change statutory definition of hybrid-electric vehicle to enable collection of supplemental hybrid fee adopted in 2017	\$75	\$75
Title Fee	Initial vehicle title or title transfer transaction	\$69.50	\$164.50

\* Depending on vehicle weight  
Source: Legislative Fiscal Bureau



## THE IMMEDIATE IMPACT

The 2020 fiscal year brought significant change to state transportation finances even before the pandemic (see Table 1). After years of debate on how to address a longstanding imbalance between transportation revenues and expenditures, the state's 2019-21 budget brought an infusion of new revenue. This came largely from increasing vehicle registration fees for the first time since 2008, and vehicle title fees for the first time since 2011.

This generated a sizable increase in revenues from these fees, as shown in Figure 1. Combined revenue from vehicle fees increased from \$704.3 million to \$839.2 million in fiscal year 2020.

These figures do not include local vehicle registration fees imposed by municipal or county governments, also called wheel taxes, which increasingly have become an [option for financially strapped local governments](#) in recent years.

Meanwhile, consumption of motor fuel declined for the first time since 2013 – as did state fuel tax revenues, which dropped from \$1.07 billion in fiscal 2019 to \$1.02 billion in fiscal 2020. The impact of this trend, coupled with recent vehicle fee increases, is a fundamental shift in the revenue mix for the transportation fund.

## A NEW REVENUE MODEL

For decades, fuel tax revenues have been by far the leading revenue source for the state transportation fund

– in many years more than doubling the amount collected from vehicle registration fees. Yet fuel tax revenues in Wisconsin and nationally have seen sluggish growth in recent years as growth in vehicle miles traveled (VMT) has stagnated, and as automobiles have become more fuel-efficient, with a corresponding impact on fuel sales.

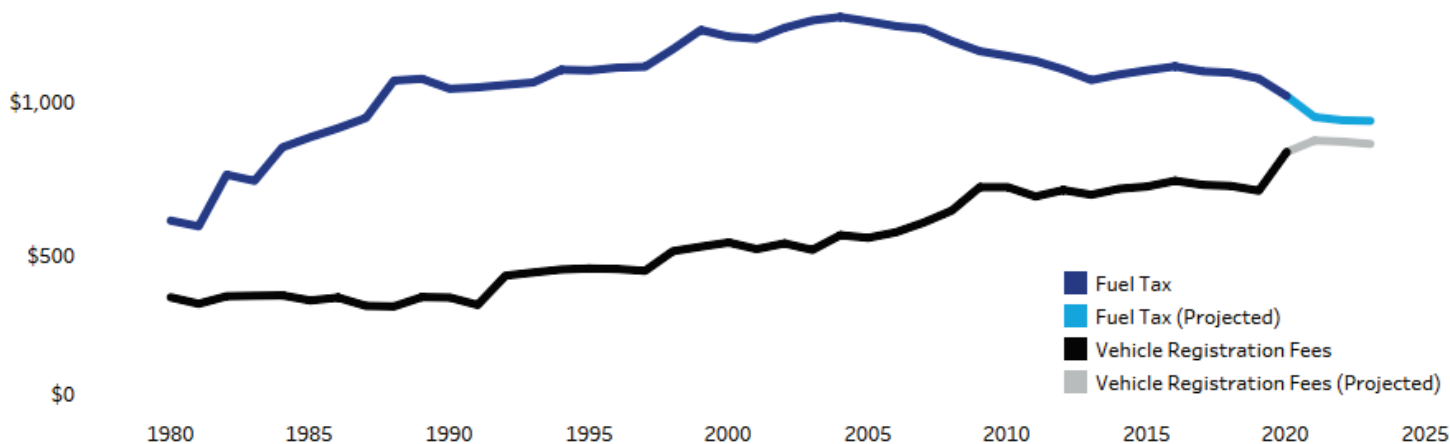
The impact has been particularly significant in Wisconsin since 2006, when a law took effect repealing the state's prior policy of indexing the fuel tax rate to inflation. Since that time the rate has remained at 30.9 cents per gallon and, as Figure 1 shows, inflation-adjusted revenues have generally fallen.

The flattened trajectory of fuel tax collections – coupled with strong growth in vehicle fee revenues – may put the latter on track to approach the former. The implications of this shift are considerable, and warrant thought by policymakers about the merits of different funding strategies.

On one hand, a heightened reliance on vehicle fees would appear to strengthen the financial position of the transportation fund in a future dominated by fuel efficient and electric vehicles.

Conversely, some say fuel taxes are a more equitable way to pay for transportation programs because the amount paid by a taxpayer is linked, through fuel consumption, to the amount of miles driven and choice of vehicle. Environmental advocates often advocate for higher fuel taxes as well, arguing they create an incentive for greater fuel efficiency by motorists and

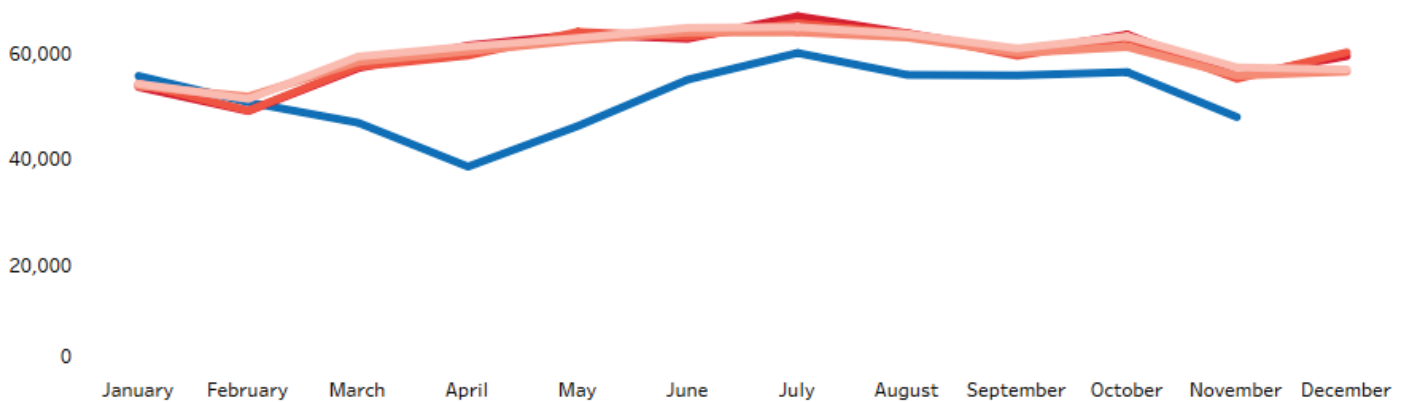
**Figure 1: A Rebound for Transportation Fund Revenues?**  
Major transportation fund revenues (in millions and 2020\$)



Sources: Wisconsin Department of Administration and Legislative Fiscal Bureau  
Note: 2021-23 revenues projected.



**Figure 2: Car Travel Drops, Then Partially Rebounds**  
 Vehicle miles travelled in millions, North Central Region, 2016-2020  
 Red/pink = 2016-2019; blue = 2020



Source: U.S. Department of Transportation Federal Highway Administration  
 North Central region includes ND, SD, NE, KS, MN, IA, MO, WI, IL, IN, MI, OH

create a connection between the cost of driving and the environmental cost of carbon emissions.

Additional transportation funding options could include vehicle tolling, which state policymakers directed the Wisconsin Department of Transportation (WisDOT) to study in a 2016 report but have not pursued. A vehicle miles traveled tax or fee is another concept already used for commercial vehicles in four states and being studied for more widespread use. Questions remain about this concept, which likely would hinge on the use of GPS or other technology to track miles driven, including concerns about the ease of implementation and privacy.

### WHAT HAPPENS AFTER THE PANDEMIC?

The efficacy of vaccines to protect against COVID-19 offers hope for a potential return to normalcy as soon as late 2021. While this is likely to be good news for state transportation finances, there is considerable uncertainty about how quickly, if at all, travel patterns and trends might revert to a pre-pandemic trajectory.

Lingering unemployment is likely to depress driving. If enough residents choose to keep working from home or shopping online, some of these changes in driving habits will become permanent. Recent national VMT estimates suggest that even after state and local restrictions were eased after the initial months of the pandemic, driving increased but did not return to pre-pandemic levels.

Figure 2 shows Federal Highway Administration (FHWA) preliminary estimates of VMT on all roads in 2020 in 12 North Central US states, including Wisconsin, relative to recent prior years. During September, October, and November, the most recent months for which we have estimates, the FHWA data for all 50 states estimate VMT was down a combined 9.5% from those same months in 2019.

This is a fraction of the nearly 40% reduction in VMT observed nationally at the start of the pandemic when stay-at-home restrictions were widely adopted across the nation. (In April, the Forum examined DOT data and [found a similar reduction](#) on Wisconsin highways during that period.) Yet even if only partially sustained going forward, this decrease would have major implications.

State officials are forecasting less driving in the upcoming 2022 fiscal year. In late 2020, WisDOT projected fuel tax revenues would remain below 2020 levels for the next two years. Total revenues in 2022 are projected to be the lowest since 2013.

### CONCLUSION

Increases in vehicle registration and title fees enacted in the 2019-21 budget have mitigated some of the funding challenges resulting from COVID-19. For the moment, federal relief funds also appear likely to cushion the blow from declining fuel tax revenues and smaller-than-expected increases in vehicle fee collections.



Yet the transportation fund has longstanding pressures that predate the coronavirus. Challenges will likely remain for state policymakers in reconciling the state's transportation spending needs with available revenue. A lingering pandemic or long-term shift toward less driving could exacerbate the problem.

In one potential bright spot, if motorists do continue to drive less, this may reduce not just revenues but also spending demands. Under this scenario, methods to estimate future traffic volume may need to be revisited, especially as they relate to capacity needs for highways and urban freeways – both for future projects and those already in the pipeline.

The pandemic has dealt another shakeup to an already considerable array of challenges relating to how we fund our state's transportation programs. Policymakers in Wisconsin and nationally will now need to closely track these trends in 2021 and beyond and consider adjusting their revenue and expenditure plans accordingly.

