EXECUTIVE SUMMARY

ROAD MAP

Assessing and funding Wisconsin's transportation needs

WISCONSIN POLICY FORUM

Despite decades of debate and many past studies, Wisconsin's state transportation and transit budgets are still being squeezed on both sides. In 2006, the Legislature and Gov. Jim Doyle ended the practice of adjusting the state's motor fuel tax for inflation, curtailing its growth. At the same time, the state started to rebuild some of the most important and expensive assets in its highway system and its investment in highways grew 30% between 2004 and 2016.

Since repealing inflation adjustments for the gas tax, the state has struggled to fund transportation, and the eye-popping rise in recent inflation has compounded the problem. The growing adoption of electric vehicles also poses a long-term threat to gas tax revenues. So far, the state has managed these challenges by drawing on income and sales tax dollars to pay for transportation needs, but falling state surpluses mean this approach may not last. This report lays out these problems along with a series of potential investment levels and revenue options that would address them to varying degrees, letting the public and elected officials choose the approach they ultimately prefer.

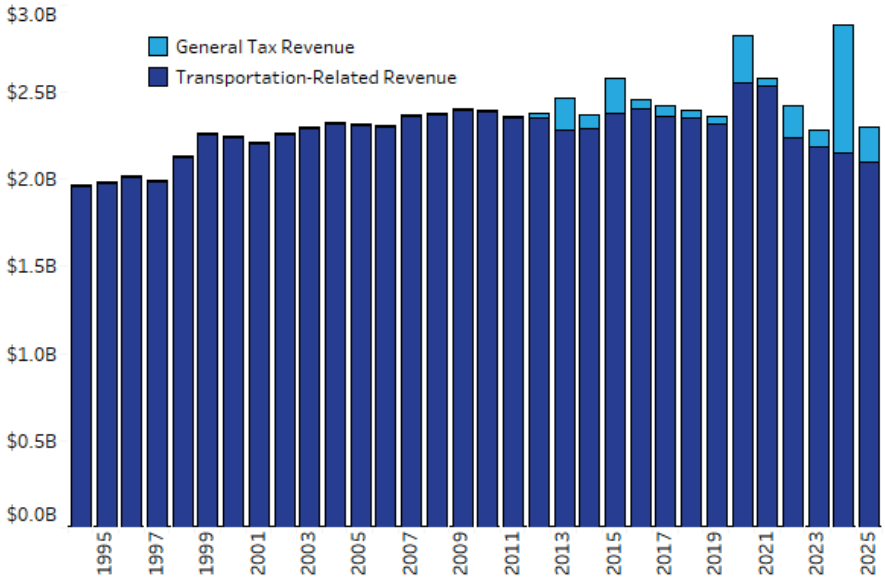
Wisconsin's Roads and the Lagging Revenues to Pay for Them

Wisconsin's 115,000 miles of roads connect state residents to jobs and activities outside work and ensure key industries such as manufacturing, agriculture, and forestry can move heavy goods over long distances. From Interstates to U.S. and state highways, the state highway system accounts for a majority (55.9%) of total miles driven but only 10.1% of state and local road miles. County, city, village, and town roads account for less of the traffic but the vast majority of the road miles. The Wisconsin Department of Transportation (WisDOT) oversees these roads as well as the state's 3,300-mile freight rail network and 29 commercial ports. The agency employs more than 3,000 people and has a 2025 budget of $3.5 billion.

Transportation revenue growth slowed following the repeal of the state law linking the gas tax to inflation. Increased vehicle registration fees did not fully offset this trend, causing the state to turn to borrowing and then general revenues from income and sales taxes. Adjusted for inflation, transportation revenues fell from $2.37 billion in fiscal year 2007 to $2.28 billion in 2023 (see chart). Without the general tax revenues, inflation-adjusted transportation funding in 2023 would have hit its lowest point since 1998.

Without Help from General Taxes, Inflation-Adjusted Revenue for Transportation Would Be Lowest Since 1998

Total transportation revenue by fiscal year, 1994 to 2025, adjusted to 2023 dollars



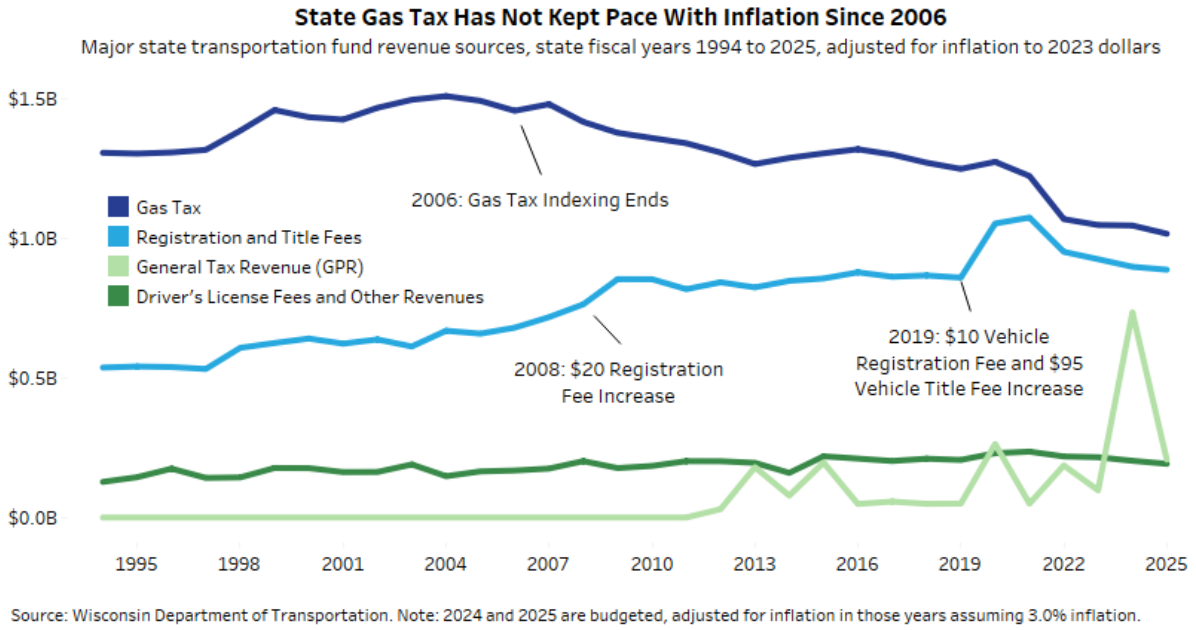
Source: Wis. DOT. Note: 2024 and 2025 are budgeted amounts adjusted assuming 3.0% inflation.

Gas Tax

The lagging gas tax largely explains the overall funding decline (see chart on the next

page). It accounted for 65% of state transportation fund revenue in 2004 but only 38% in 2024. If the state had not repealed inflation adjustments, the gas tax would have generated up to $2.9 billion more from April 1, 2007 through June 2022, according to the Legislative Fiscal Bureau.

This rise of electric vehicles could change that eventually, though for now only 0.3% of the statewide fleet of vehicles are electric. The typical Wisconsin motorist pays $200 to $400 per year in gas taxes, vehicle registration fees, and other fees depending on the miles driven and the vehicle's fuel efficiency, according to a WisDOT cost of ownership calculator. Electric vehicles only bring in $260 through vehicle registration fees annually and no gas taxes, leaving a potential shortfall in revenues.



Source: Wisconsin Department of Transportation. Note: 2024 and 2025 are budgeted, adjusted for inflation in those years assuming 3.0% inflation.

Registration Fees

The other main source of transportation revenue is state registration and title fees on passenger vehicles, semi-trucks, and other commercial vehicles. Wisconsin charges a flat annual registration fee of $85 for all traditional cars, while light truck owners pay between $100 and $106 depending on their size. Electric and hybrid vehicle owners pay $260. Commercial trucks and trailers pay higher fees based on vehicle weight, with the largest vehicles paying $2,578 annually.

Registration fees have generally grown slowly over time, and their purchasing power has been eroded in recent years by inflation. Despite their slow growth, however, registration fees have outpaced the gas tax and now comprise about 40% of total state transportation revenues, up from 30% in the 2000s. As Wisconsin's transportation fund becomes more reliant on flat registration fees, it becomes less tied to either motorists' use of the roads or their ability to pay. As some municipalities and counties cope with slow growth in property tax revenue and rising labor costs, they have turned to local vehicle registration fees, or wheel taxes. Fifty-five cities, villages, towns, and counties impose a fee between $10 and $40 to pay for transportation costs, according to WisDOT.

General Fund Support, State Borrowing and Federal Funding for Transportation Projects

From fiscal 2005 to 2009, transportation revenues were transferred to the general fund, reducing transportation funding by a net $454.7 million to pay for other priorities. Conversely, from fiscal year

2012 through June 2025, $2.6 billion will have flowed in the opposite direction from the general fund to the transportation fund, including $749.7 million in the 2023-25 state budget alone. However, sustaining this funding beyond the upcoming 2025-27 budget may prove challenging.

In the face of flat revenues, rising costs to rebuild and rehabilitate the highway system, and low interest rates, the state borrowed more to help pay for transportation projects from 2003 to 2015. Since then, borrowing has tapered off but could return if potential funding gaps are not addressed in other ways. The state uses several types of transportation borrowing: general obligation bonds that are paid off using transportation revenues as well as other state taxes if necessary; transportation revenue bonds, which are generally paid for using vehicle registration and title fees; and general obligation bonds that are amortized using general fund revenues.

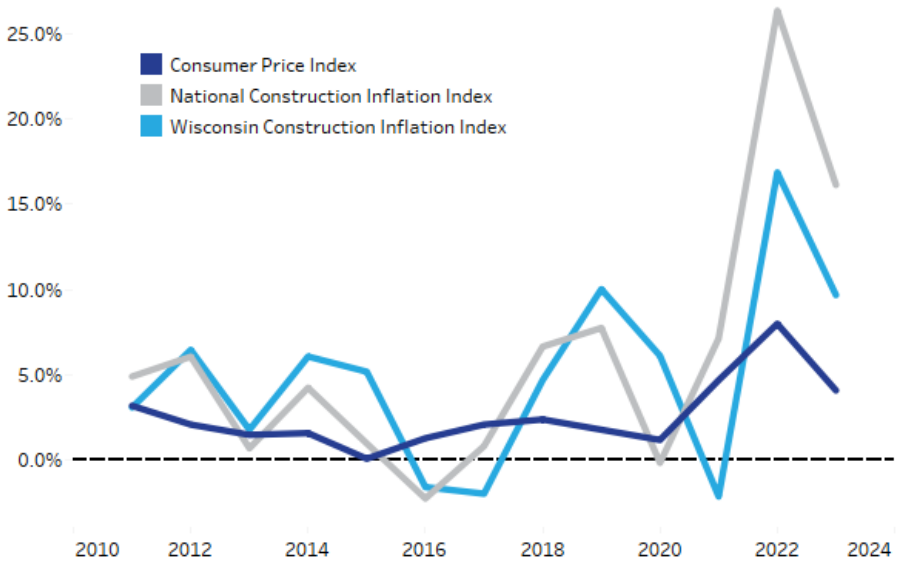
Wisconsin also receives federal funding, which the U.S. Department of Transportation distributes to states for a wide range of infrastructure projects, generally through a formula. The state's federal transportation revenues increased steadily from 1997 to 2004 even when adjusted for inflation, then spiked in 2010 and 2011 because of the American Recovery and Reinvestment Act. Funding modestly lagged inflation in the years after and then rose with the passage of COVID-19 relief measures and the federal Infrastructure Investment and Jobs Act. These recent increases in federal funds, however, have not made up fully for slow growth in state revenue for transportation.

Highways Have Accounted for Much of Recent State Spending

Paying for Wisconsin's transportation network has become more expensive even as the money to support that network has lagged. Inflation-adjusted spending on highways has shrunk to its lowest level since 2006 and state spending on local roads has also lagged. Road building costs have also risen more quickly than the Consumer Price Index that we use to make inflation adjustments in this report. As the chart shows, national road construction costs grew by 56.8% between 2020 and 2023, while state construction costs rose 26.6% and CPI increased by 17.7%. Over the same time, total state transportation spending only increased by 5.3%.

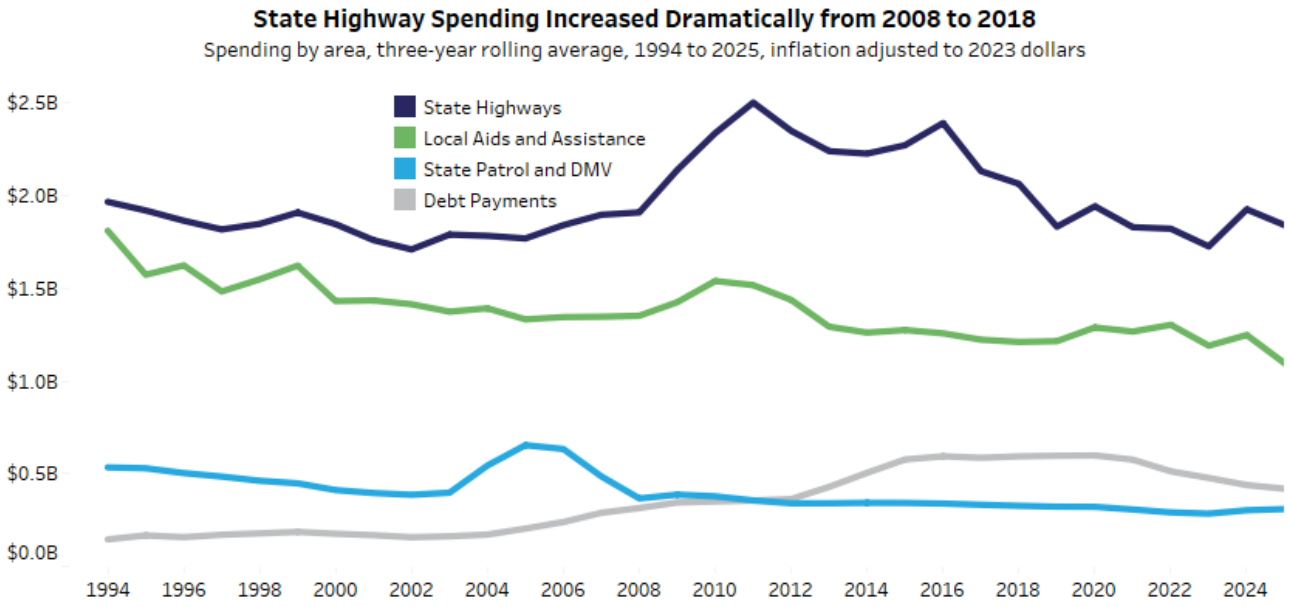
Construction Inflation Outpacing Overall Inflation

Annual percentage change in WisDOT construction inflation index, national construction inflation index, and Consumer Price Index, 2010 to 2023



Sources: WisDOT, Federal Highway Administration, and U.S. Bureau of Labor Statistics

The chart on the previous page shows how inflation-adjusted transportation spending has changed over the past 30 years. Though it has fallen off more recently, highway program spending increased sharply between 2008 and 2018, driven by major investments such as



Source: Wisconsin Department of Transportation. Inflation adjusted using Consumer Price Index.

Milwaukee County's Zoo Interchange and Marquette Interchange, and the I-94 North-South segment between Milwaukee and Illinois. These investments improved highway quality, but local road systems now show a slight decline in quality and the service areas of local transit operators have also declined. For example, the largest form of state assistance for local roads are General Transportation Aids, which on a nominal basis increased from $337.5 million in 2000 to $541.4 million in 2025. That's a 60% increase, or about 1.9% per year, which is well below the growth in CPI (90.7%) over that period.

Transportation debt payments increased rapidly between 2011 and 2018. Since then, these payments have leveled off as a share of transportation revenues as borrowing has slowed, existing debt has been paid off, and vehicle fees have increased. Yet they still comprised about 16.6% of total transportation spending as of 2022. Future debt payments will fall if the state holds down borrowing, but debt may rise again if the state does not act to increase transportation revenues.

A Look at Other States

To compare Wisconsin's funding levels to other states, we looked at operating and capital spending on transportation using Federal Highway Administration data. Wisconsin's combined state and local spending averaged $821 per person over the three most recent years, which was 1% higher than the national average of $811. Wisconsin ranked 19th in the country and third in spending among neighboring states. On a per-lane-mile basis, Wisconsin's spending falls to fourth among its neighbors at $20,166 per mile, which is well below the national average of $26,203. Notably, the state faces higher costs from snowplowing and the impact of freezing and thawing on pavement.

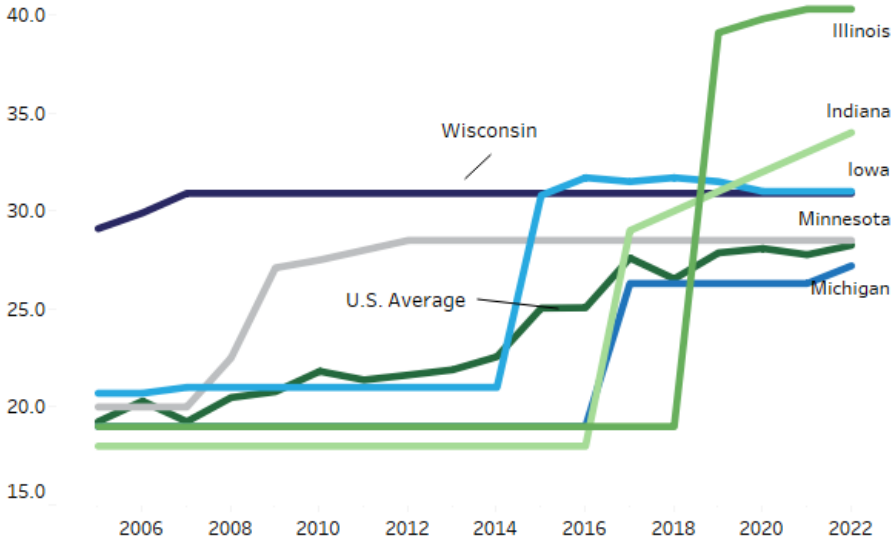
We also can compare transportation revenues among states. Wisconsin relies more on transportation taxes and fees to fund roads, and less on general tax revenues, than its nearest neighbors and the U.S. average. States also vary on their preferred user fee. Iowa collects 65.1% of its transportation user fees from registration and title fees. Indiana, on the other hand, relies on the gas tax for 81.0% of its revenues. Illinois also collects 23% of its total revenues from tolls. Wisconsin

outpaces its immediate neighbors with 53.7% of its total vehicle-related revenues coming from motor fuel taxes despite the fact that the state has not increased its gas tax rate in many years.

Wisconsin's gas tax ranked fourth-highest nationally in 2005 and was 34% higher than the national average. By 2022, the state's tax ranking had fallen to 19th and was 8.4% above the national average (see chart).

Wisconsin's Gas Tax Has Remained Steady Since 2007, While Neighboring States Have Raised Rates

State motor fuel tax in cents per gallon, 2005 to 2022



Source: Federal Highway Administration

Options for the Future

To consider state transportation funding, we lay out spending scenarios to show how much money will be needed over the next two state budgets, analyze the gap between those needs and existing revenues, and outline options for covering the funding gap. We built three scenarios for the next four years, showing different levels of potential investment, with high, medium, and low-cost options. Table 1 summarizes the program assumptions and revenue needs of each of the scenarios. A more detailed explanation of how we developed these scenarios can be found in our full report.

Table 1: Scenarios for Consideration

Scenario	Highway and Local Aids Increase	Supplemental Local Capital Aids	SE Megaprojects (I-94 E-W)	Additional Revenue Needed Annually
Fix The Roads	5%	$100 Million	Fully Funded	$413 million
Shrink the State Highway Program	2.0%	None	No Funding	$88 million
Tighten Our Belt	0%	None	No Funding	None

Source: WPF calculations using WisDOT and LFB data

Revenue Options for Consideration

Our scenarios showed annual gaps ranging from zero to $413 million in new revenue needed. Below, we examine a series of options for closing those gaps, including increasing existing revenues, adopting other revenue sources such as tolling or a mileage-based fee on motorists, or cutting

transportation spending. We project that a one-cent increase in the motor fuel tax would result in approximately $35 million in new revenue per year, and a $1 increase in the registration fee would result in approximately $8.4 million in new revenue. We don't include the "Tighten Our Belt" Scenario in the following tables since it would not require new revenue.

Alternative One – Support Roads with Income and Sales Tax Revenues

In this option, both state registration and title fees and the gas tax rate remain at current levels, which would mean transportation revenues would increase by a projected 1% annually. The difference between available funding and what is needed to cover each of the scenarios described above is made up over time with a growing amount of general fund tax revenue (see Table 2).

Table 2: Changes to General Fund Support

Scenario	Average Annual Gap	General Fund Support of This Amount Equals:
"Fix the Roads"	$413 million	% of Transportation Revenue: 23% % of General Fund Tax Revenue: 1.9%
"Shrink the State Highway Program"	$88 million	% of Transportation Revenue: 8.3% % of General Fund Tax Revenue: 0.4%

Source: WPF calculations using WisDOT and LFB data

Alternative Two – Raise User-Fee Revenue

Our second alternative covers the funding gap by splitting it between gas tax and registration fee increases, with Table 3 below showing the increases needed in these two revenues. This approach would link the costs for motorists with how much they drive, and the increase in user fees would keep transportation funding from competing with other state priorities. However, gas tax increases fall more heavily on some drivers, such as rural residents, and have not proven especially popular.

Table 3: Changes to User Fees

Scenario	Average Annual Gap	Tax and Fee Increase Needed
"Fix the Roads"	$413 million	Registration Fee: $22 Gas Tax: 5.4 cents per gallon
"Shrink the State Highway Program"	$88 million	Registration Fee: $6 Gas Tax: 1.3 cents per gallon

Source: WPF calculations using WisDOT and LFB data

Alternative Three – Raise User Fees and Increase General Fund Support

This option uses a three-pronged approach to address funding gaps by relying on general fund revenue in addition to gas tax and registration fee increases. Table 4 shows the amount from each revenue source needed to cover the gaps in revenue for each scenario. Mixing these different types of revenue provides some of the same positive elements for transportation funding as pursuing either of these options alone. However, there would still be some impacts to both motorists and other state priorities such as education.

Table 4: Changes to User Fee Increases and General Fund Support

Scenario	Gap	Tax and Fee Increase, General Tax Transfer Needed
"Fix the Roads"	$413 million	Registration Fee: $15 Gas Tax: 3.6 cent per gallon New General Tax Transfer: $126 million
"Shrink the State Highway Program"	$88 million	Registration Fee: $4 Gas Tax: 0.9 cent per gallon New General Tax Transfer: $31 million

Source: WPF calculations using WisDOT and LFB data

Alternative Four – New Mileage-Based Fee to Augment the Gas Tax

With the long-term outlook for the gas tax murky, state leaders could choose to consider a mileage-based fee on motorists. Despite national discussions about this type of fee as early as the mid-1990s, it has only been implemented as a voluntary program in Oregon in 2015 and Utah and Virginia in 2020. These little-used programs show mileage-based fees are technologically feasible, but remain relatively untested nationally and seemingly unpopular with motorists.

Table 5 shows what it would take to cover the funding gap if this new fee were applied to all drivers in the state in addition to existing taxes and fees. These are simple estimates, and they would need to be refined if state leaders chose to pursue this option.

Table 5: Vehicle Miles Traveled Cost per Driver Estimates

Scenario	Gap	Additional Annual Cost per Driver
"Fix the Roads"	$413 million	$78
"Shrink the State Highway Program"	$88 million	$16

Source: WPF calculations using WisDOT and LFB data

Other Options

While our previous options focused on estimating the magnitude of changes to existing fees, there are other approaches that the state could consider to increase available transportation revenue. Table 6 on the following page shows the basic arguments for and against these options:

Table 6: Alternative Revenue Options

Option	Pros and Cons	Scale	States in Use
Tolling – Institute open road tolling on the entire Interstate system, or on specific stretches to pay for specific projects.	**Pros**: Directly tied to road use and can pay for either a major improvement or the entire system. **Cons**: High installation, maintenance, and administrative costs; also unpopular.	Regional to Statewide	28 states, including Illinois, Michigan, Pennsylvania
Sales Tax on Motor Fuel – Apply the state sales tax to motor fuel purchases (currently the state does not apply the tax to these sales).	**Pros**: Ties revenue increases to inflation in gas prices, resulting in the potential for substantial revenue growth. **Cons**: This volatile revenue source would add uncertainty to road funding and raise gas prices, especially when oil prices are high.	Statewide	Illinois, Indiana, Michigan, others
Regional Transportation Authorities – Allow local governments to institute a fee or tax such as a local option sales tax, registration fee or other source, to pay for road and transit projects.	**Pros:** Allows regional collaboration about transportation to set investment levels and vehicle fees. Local governments could focus investment on roads or transit, depending on local preferences. **Cons:** May lead to varying road conditions, transit service, and costs of vehicle ownership in different parts of the state.	Regional/ Local	Illinois, Georgia, Michigan, others
Varying Vehicle Registration Fees – Change the basis of vehicle registration fees from a flat fee to one based on the value or weight of the vehicle.	**Pros:** Could raise additional revenue while tying registration fees to motorists' ability to pay through greater fees on costly vehicles. **Cons:** User fee not tied to road use. Could raise cost to own a vehicle.	Statewide	Minnesota, Michigan, seven others
Public-Private-Partnership – Allow companies to invest in and then operate highways. Private firms are paid with tolling revenue or state funds.	**Pros:** Leverages private capital to pay for highways. **Cons**: Does not generate new revenue unless a new fee or tax is imposed and reduces control over road conditions by government bodies. Private firms also typically have higher borrowing costs than the state.	Project-Specific	Indiana, Virginia, others
Local Option Sales Tax for Transportation – Allow municipalities and counties to impose a sales tax with the revenue dedicated to transportation purposes.	**Pros:** Provides additional revenue for transportation and allows local preferences to drive choices about investments. **Cons:** Could create a patchwork of road conditions and tax rates across the state.	Local	Michigan, Minnesota, others
Right-of-Way Development Fees – Charge fees to utility service providers, like broadband internet providers, for access to road rights-of-way as they expand service.	**Pro:** May generate more revenue for road repair and maintenance. **Con:** Increases the costs of installing or maintaining utility infrastructure like broadband internet.	Local	Utah

Conclusion

Over the past two decades, the state of Wisconsin has financed and undertaken a series of massive upgrades to its transportation infrastructure: the Marquette and Zoo interchanges, I-94 North-South, and the Hoan and Stillwater bridges. As the state has made these investments, the review of state and federal data contained in our full report show the quality of Wisconsin's busiest highways has improved. That represents a critical economic gain in a state where trucks freighted with manufactured goods, milk tanks, and pine logs speed from one destination to another.

Yet at the same time, the quality of local roads and reach of local transit services has declined and future megaprojects still loom, including I-94 East-West and the I-794 Lake Interchange in Milwaukee. Since the state repealed its law linking the gas tax to inflation, state transportation revenues have lagged even as project costs have soared. To scrape by in the years since, the state relied first on borrowing and then on the recent surplus in its general fund, which was $4.6 billion as of June 2024. These tools could help the state fund transportation in the upcoming 2025-27 budget but could prove less reliable in the future as debt payments rise and the general fund balance drops.

Wisconsin now risks falling behind on transportation funding, and it has few if any shortcuts that it can take. Either the state will have to forego spending and sacrifice road quality over time, or it will have to tap one of a few available funding sources such as the gas tax, vehicle registration or title fees, general tax dollars, mileage fees, local taxes and fees, or tolling. Some of these options are admittedly unpopular with voters and will land more heavily on some low-income motorists, such as a gas tax falling disproportionately on rural residents. However, a decision to delay raising revenue will also affect some of these same individuals, likely taking the greatest toll on roads in rural communities and poorer urban neighborhoods.

As state leaders idle at this current crossroads, they are weighing decisions with major implications for drivers' pocketbooks and the economy as a whole. We hope the insights and options in this report serve both voters and elected officials as they consider the best path forward for all of Wisconsin.