2003 Joint Committee on Audit

DOT Major Highways

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1000 Friends of Wisconsin Testimony on Legislative Audit of Major Highway Projects

Ward Lyles
Transportation Policy Director
January 26, 2003

Thank you for the opportunity to speak before you today. My name is Ward Lyles and I am the Transportation Policy Director for 1000 Friends of Wisconsin.

I would like to commend this committee and its co-chairs for requesting this audit of the Major Highway Projects program. There is a great deal to talk about regarding the findings and recommendations of the audit, as well as how those findings and recommendations can be used in the future. In the interest of brevity, however, I will touch on just three main points.

First, cost overruns of nearly half the estimated cost on any project are unacceptable. Cost overruns of up to 262% are unconscionable, especially when an estimated $380 million could be saved through practices such as value engineering. We fully and enthusiastically support the recommendations of the audit regarding improved financial reporting and cost estimates, as well as increased accountability to the Joint Audit Committee and Transportation Projects Commission

Before I make my second point, please consider a few statistics that complement the audit findings. These numbers are based on the Wisconsin Department of Transportation's *Transportation Budget Trends* document. Accounting for inflation, spending on Major Highway Projects increased 101%, that is, doubled, between 1988 and 2003. Meanwhile, expenditures to pay off the debt service on Major Highway Projects increased by 360%. On the other hand, spending on Rehabilitation did not come close to keeping up as it increased by 40%. What's most appalling is that during the same period spending on maintenance actually decreased by 3%. We're building more and more highways, not spending enough to repair them, and actually spending less and less to maintain them.

The point here is that the audit clearly demonstrates that the Major Highways Projects program has seen excessive cost overruns and a lack of fiscal restraint – two

unsustainable and irresponsible patterns. When considering the larger trends of expenditures on all types of highway work, it seems pretty clear that we're throwing good money after bad. The remedy to this problem is a common sense policy that should be implemented: fix-it-first.

The third point I wish to make is the most important. Please do not let this audit be both the means and the end of this process. Please let it be a starting point for extensive, thorough discussions of how this state has spent its taxpayers' money on transportation in the past. Please let it be a starting point for developing solutions for identifiable problems. And please let it be a starting point for implementing fiscally responsible budgeting that focuses on protecting our existing investments first and foremost.

State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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DATE: January 27, 2003

TO: Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee

FROM: Janice Mueller
State Auditor

SUBJECT: Proposed Audit of the Department of Transportation's Major Highway Development Program—Background Information

At your request, we have gathered some background information the Joint Legislative Audit Committee may find useful in considering an audit of the Department of Transportation (DOT). In 1996 and 1997, the Legislative Audit Bureau conducted a series of evaluations of DOT, including reviews of its funding and management. In light of current projections of multi-billion dollar funding shortfalls for the highway program in coming years, interest has been expressed in updates of those evaluations.

Concerns about funding for the state highway program are affected by a number of factors, including the immediate need to rebuild the Marquette Interchange; the longer-term need to rebuild and potentially expand the freeway system in Milwaukee County, which is approaching the end of its useful life; and the desire to not reduce funding for highway projects in other parts of the state to fund Milwaukee's projects. Current estimates are that the Marquette Interchange could cost approximately $910 million and that rebuilding and expanding the Milwaukee freeway system could cost an estimated $6.25 billion.

Wisconsin's largest source of funding for highway programs is fuel taxes levied by both the state and federal government. Concern has been expressed that natural growth in fuel tax revenue will be offset by increased fuel efficiency from technological improvements, alternative fuels such as ethanol, and hybrid vehicles. Further, in its budget re-submitted to the Department of Administration in December 2002, DOT estimated that formula funding from the federal government could be considerably below that budgeted. The fiscal year (FY) 2002-03 adjusted base budget for DOT and its aids programs is $2.2 billion.

In order to fund the Marquette Interchange while maintaining funding for projects elsewhere in the State, DOT's initial 2003-2005 budget request proposed funding the project with bond funds as well as federal and state segregated funding. In order not to reduce other highway programs, the Department proposed a 100 percent increase in vehicle registration fees for automobiles and light trucks, as well as increases for larger trucks. After being directed to re-submit its proposal without the vehicle registration increase, DOT proposed extending the Interchange project over

a longer period of time, and reallocating $135 million in state and federal funds in the 2003-2005 biennium from other highway programs, including the highway improvement program, general transportation aids, the local road improvement program, and transit aids.

An audit to update past evaluations of the Department of Transportation completed in 1996 and 1997 could include:

- a review of revenue and expenditure trends overall and among the DOT's programs and local aids programs;
- an analysis of funding trends and comparisons of Wisconsin funding sources with those of other states;
- an analysis of the major highway development program, including DOT's procedures for selecting among competing designs and cost estimates for individual projects; and
- a determination of the extent to which environmental assessment activities are performed in response to federal and state requirements and DOT's policies.

If you have any questions regarding this request, please contact me.

JM/DB/bm

cc: Senator Robert Cowles
Senator Alberta Darling
Senator Gary George
Senator Dave Hansen

Representative Samantha Kerkman
Representative Dean Kaufert
Representative David Cullen
Representative Mark Pocan

Frank Busalacchi, Secretary
Department of Transportation

Vote Record

Joint committee on Audit

Date: 2-5-03

Moved by: Hansen Seconded by: Jeskewitz

Motion to DOT

Be recommended for:

- ☐ Passage
- ☐ Introduction
- ☐ Adoption
- ☐ Rejection
- ☐ Confirmation
- ☐ Tabling
- ☐ Concurrence
- ☐ Nonconcurrence
- ☐ Indefinite Postponement

Committee Member	Aye	No	Absent	Not Voting
Representative Suzanne Jeskewitz	☑	☐	☐	☐
Senator Carol Roessler	☑	☐	☐	☐
Senator Robert Cowles	☑	☐	☐	☐
Senator Alberta Darling	☑	☐	☐	☐
Senator Gary George	☑	☐	☐	☐
Senator David Hansen	☑	☐	☐	☐
Representative Dean Kaufert	☑	☐	☐	☐
Representative Samantha Kerkman	☑	☐	☐	☐
Representative David Cullen	☑	☐	☐	☐
Representative Mark Pocan	☑	☐	☐	☐
Totals:	10-			

☐ Motion Carried ☐ Motion Failed

Joint Legislative Audit Committee
Major Highway Program Audit

February 5, 2003

Testimony of Tom Walker
Executive Director
WI Transportation Builders Association

Thank you, Senator Roessler and Representative Jeskewitz, and members of the Committee.

I am pleased to be able to offer some constructive insights on the very important issue before the Committee this morning.

My name is Tom Walker. I am the Executive Director of the Wisconsin Transportation Builders Association (WTBA). WTBA is a statewide association of 300 member companies and their skilled employees. Our members design, build, repair, and reconstruct capital projects in every transportation mode – including railroads, state highways, local roads and streets, bike paths, airports, and specialized pedestrian facilities.

Prior to that, I served as Executive Director of the Transportation Development Association and for 8 years as the Executive Assistant at the Wisconsin Department of Transportation.

A good place to start is by asking the question, "why Major Highway Projects"? Answering this question will provide the context for the Legislature to determine what the annual funding level should be for this program, which of course determines when projects can be built.

In almost all cases, Major Projects add new travel lanes in existing high priority travel corridors along existing highways. Wisconsin is not building new highways, but fixing problems on existing routes. Major Projects ensure that travel on the state's key arteries is safe, efficient, and reliable. Congested highways add travel time costs, interfere with Just-in-Time delivery, threaten assembly line shutdowns, waste fuel and increase accidents.

With my testimony, I am providing the Committee today a short paper on this issue I recently wrote.

Let me highlight its key points.

The key determinant of how much travel will grow is the economy: The number of jobs and their location; input and output shipments in the manufacturing process; agricultural production; the deployment of sales personnel; deliveries of consumer goods; an increase in tourism; and recreational travel.

There is a near perfect correlation between our gross domestic product, or GDP, and the number of vehicle miles traveled, all the way back to World War II.

I know that every member of this Legislature is keenly interested in growing Wisconsin's economy and increasing wages. As Senator Panzer said recently, with scarce resources, every dollar we spend must be evaluated in terms of its potential to create jobs. We certainly concur. Consider, then, some key facts.

- Over the last 20 years, highway travel grew 60%, but the number of lane miles grew only 5%. Clearly congestion is growing.

- Travel is expected to grow another 35% by 2020, including a near doubling of commercial truck traffic. Think of that: 2 trucks for every 1 today, to carry the output of our businesses and workers, our farms and our forests.

- If we stopped investing in capacity, the miles of congested state highways will grow 70% by 2020.

Is this acceptable? What is the risk to our economy?

The fact is that America is falling behind Europe and the Pacific Rim, who have been investing far higher percentages of their GDP on transportation in all modes. We are rapidly losing our competitive edge in the costs to ship products and move people.

The best way I can explain the consequences is by referring you to an article I recently read in a world-class Journal that focuses on transportation policy options.

The authors call for a third transportation revolution, to provide a productivity leap similar to the building of the transcontinental railroad and the interstate highway system. They call for "a major rebuilding, expansion and modernization of the nation's transportation infrastructure."

In short, the Internet revolution has created a time-driven paradigm as never before, both for consumer goods and for the manufacturing inputs and outputs. With reliability and predictability assured, the full value of that potential can be realized. But without them, the economy will stagnate with higher transport costs.

Here's what the authors say:

> "If the nation doesn't triple transportation capacity in the next 40 years, our prediction is that the economy will not grow 2% to 4% annually and income will not grow as expected. Productivity growth facilitated by the explosive growth of information technology will be blocked by a crippled and congested infrastructure. Export competitive advantages will be lost because of high distribution costs and unreliable transportation service, and U.S. goods will be less competitive in foreign (and U.S.) markets. The U.S. economic advantage will deteriorate and the growth of high-paying jobs will disappoint a growing population."

Meeting Wisconsin's Transportation Capacity Needs

Without question, ensuring that the one Wisconsin transportation program focused on productivity must be able to achieve its program goals effectively has to be a legislative priority.

With this mind, I would like to suggest that the proposed audit explore the following key issues:

1. **The first issue is what is the appropriate level of annual funding for major projects?**

Wisconsin invests only 11% of its total transportation revenues in Major Projects; 89% is allocated to other important programs.

I am not suggesting a reallocation. But the Legislature needs to see the whole picture, rather than focus on project enumeration.

A few years ago, DOT completed a 20-year State Highway Plan that looked at emerging congestion. To reduce costs, the Department changed its policy to allow higher levels of congestion before providing new capacity. **The Plan then called for a $50 million annual increase in Majors funding, in constant 1999 dollars, which has not been provided.** And even so, there would still not be sufficient funding to add capacity to over 600 miles of state highways that would exceed the tightened standards by 2020.

It seems clear that the long list of needed projects is a symptom of chronic underfunding. Even if we enumerate no new projects for one or even two legislative cycles, there will simply be a much longer list of projects for the TPC to manage in the future.

Even if the Legislature were to enumerate all four projects that the TPC considered in December, the annual funding level will still determine when they can actually be built. My guess is that as one example, the badly needed additional capacity on Highway 41 could not be completed until after 2015, perhaps not until 2020. What will that do to the economy in the Fox Valley? Now multiply that by other key corridors across Wisconsin.

2. **The second issue flows from the first. If the Legislature were to agree that more funds must be invested in the majors program, where will the money come from?**

It would be very helpful for the Audit Bureau to look at comparative sources of state and local transportation funding. To be sure, all states are struggling with needs exceeding revenues.

What is different in Wisconsin is that we alone depend almost 100% on state-collected highway fees and local property taxes.

Our fuel tax is high not because we are overspending, but because the fuel tax pays a much higher share of transportation costs than in any other state.

Other states supplement highway user fees with state GPR, for highways and especially for transit, and authorize local option sales taxes to support transit, and in some cases highways as well. Just about every successful urban rail system is financially rooted on a robust dedicated local sales tax.

As one example, almost 20 states dedicate all or part of the vehicle sales tax to transportation.

A report showing the magnitude and frequency of non-traditional ways to fund both state and local transportation would, I believe, suggest realistic options for the Legislature to consider. Reforming how we pay for transportation in Wisconsin is a critical part of the solution to the problem of chronic underfunding, in the Major Highway and other programs.

3. No audit would be complete without taking a look at the cost side of the equation.

The problem we face is the explosion of development costs, at the expense of the delivered product on the road.

It simply costs more and takes much longer to bring a project through the maze of steps that must be completed before the first contract is let.

We recently looked at the cost structure of the state and local improvement program, let by WisDOT. What we found surprised us.

Despite the continuous effort by the Legislature to slowly expand the program, the constant dollar value of let contracts was flat, but the up-front costs have spiraled. All you need to do is look at the appropriations and compare them to let contracts.

Therefore, our third recommendation is for the Audit Bureau to measure those cost trends, look for the reasons, and recommend ways to reduce those costs.

Congress is also very interested in this issue. In TEA-21, Congress passed legislation requiring FHWA and FTA to streamline the public involvement process and environmental reviews, without compromising environmental resources. Disappointed by the progress, Congress is poised to take further action. In December, House Transportation and Infrastructure Committee Chair Don Young introduced a bill, called Expedite, to reduce the time and costs of getting projects to construction. He is planning to make it an integral part of TEA-21 reauthorization this year. I'm sure there are many ideas here the Audit Bureau may want to evaluate. Looking at mitigation costs might be another area worth examining.

One particular area of cost growth that merits close evaluation is the spiraling cost of right-of-way, especially at proposed new interchanges. By the time DOT can buy parcels, speculators have bid up the value of the adjacent land exponentially. Taxpayers are stuck with the bill. It would be very helpful to calculate these costs and explore ways for DOT to acquire property early, when it is affordable. The Audit Bureau might also explore ways to assure that adjacent owners reaping the dramatic economic benefits of these projects help pay for the cost.

WTBA is looking forward to working with the Committee and the Audit Bureau on this very important issue. We commend your initiative.

Modernizing the Role of the Transportation Projects Commission

Capacity, Congestion and Economic Stagnation:

Congestion results when traffic volumes increase, approaching and then exceeding the capacity of a given route. The result is an increase in accidents, wasted time and fuel, and loss of reliability. These impacts are unacceptable to Wisconsin motorists, and critically undermine a business's ability to depend on its delivery schedules and manpower deployment in a "just-in-time" environment.

Traffic volumes directly increase with economic activity, as well as with population, the number of household, the number of licensed drivers, and the availability of vehicles.

There is a near perfect correlation between GDP (Gross Domestic Product) and VMT (vehicle miles of travel).

In Wisconsin traffic grew by about 60% over the last twenty years. During the same time, state highway lane miles grew only 5%.

Total traffic is projected to grow 35% by 2020, with commercial truck traffic projected to nearly double!

Without new capacity, the number of congested state highways will grow nearly 70% by 2020.

America's Transportation Capacity Crisis:

There is a growing consensus that America has neglected to invest adequately in new transportation capacity, for at least 25 years, while Europe and the Pacific Rim have invested a much higher percentage of GDP, building new, modern and efficient transportation infrastructure that puts them on the cutting edge of competitive production in a world economy. The problem can be easily seen in all transportation modes: congested urban and inter-regional highway corridors; traveler delays at hub airports; railroad bottlenecks at key interchange points like Chicago and at ocean ports; etc.

In an article published just this month in the Transportation Quarterly, the most authoritative journal of transportation policy in the world, Kenneth Wykle and William Tuttle laid out the case for a third transportation revolution, that would impact economic productivity as much as the first two: building of the transcontinental railroad and the interstate highway system. The revolution would produce "a major rebuilding, expansion and modernization of the nation's transportation infrastructure."

Why? The stakes are quite clear. The internet revolution has created a time-driven paradigm as never before, both for consumer goods and for manufacturing inputs and outputs. With reliability and predictability assured, the full value of that potential can be realized. But without them, the economy will stagnate with higher transport costs.

Here's what Wykle and Tuttle emphasize:

"If the nation doesn't triple transportation capacity in the next 40 years, our prediction is that the economy will not grow 2 to 4% annually and income will not grow as expected. Productivity growth facilitated by the explosive growth of information technology will be blocked by a crippled and congested infrastructure. Export competitive advantages will be lost because of high distribution costs and unreliable distribution service, and US goods will be less competitive in foreign (and US) markets. The US economic advantage will deteriorate and the growth of high-paying jobs will disappoint a growing population."

Wisconsin is appropriately focused on expanding its economy, creating new jobs, and increasing average worker pay. We clearly cannot take a chance that congestion will undermine these goals.

Therefore, based on the consensus criteria that state spending must be prioritized on the basis of its potential to create good-paying jobs, investments in transportation capacity are quite likely the most cost-effective use of limited state and federal transportation funds

Press Release

For more information contact:
Lisa MacKinnon, Attorney (608)-663-9049 or,
Ward Lyles, Transportation Analyst (608)-663-1097

February 6, 2003

1000 Friends of Wisconsin Applauds Joint Audit Committee's Decision to Audit WisDOT's Major Highway Projects

Yesterday, the Legislature's Joint Committee on Audit voted unanimously to audit the state's Major Highway Projects program. According to WisDOT's Budget Trends report of August 2002, spending on Major Highway Projects has increased 101% above inflation over the last 15 years and its debt service on revenue bonds used to finance Major Highway Projects has increased 360% over inflation in the same period. According to the Wisconsin Taxpayers Alliance, as of mid-2002, WisDOT's outstanding debt was more than $1 billion dollars – and almost all of it has been issued to pay for Major Highway Projects.

"An audit of this program is both timely and fiscally responsible since WisDOT is dealing with a projected funding shortfall of at least $5.1 billion while at the same time trying to secure funding for the Marquette Interchange and Southeastern Wisconsin highway system reconstruction," said Lisa MacKinnon, attorney for 1000 Friends.

While Major Highway Projects spending has increased dramatically, WisDOT's repair and maintenance spending, as well as aids to local governments, have not kept pace. Accounting for inflation, WisDOT's spending on rehabilitation has increased just 40% over inflation, maintenance spending has actually decreased 3%, and expenditures on local transportation aids have increased 31%.

"In its analysis, we hope the Legislative Audit Bureau will consider the negative effects that increased spending on Major Highway Projects has had on repair, maintenance and local transportation aids," said MacKinnon. "Similarly, we hope the budget process will give the Legislature and the Governor an opportunity to take a serious look at the Major Highway Projects program and the Marquette –Southeast Wisconsin proposals. We cannot afford to continue assuming more and more debt to fund highway expansion at the expense of our other transportation needs."

In early March 1000 Friends of Wisconsin will release a briefing booklet on transportation finances in Wisconsin.

State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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March 26, 2003

Representative Sheryl Albers
3 North, State Capitol
Madison, Wisconsin 53702

Dear ~~Representative~~ Albers: Sheryl

Thank you for your letter requesting information on the effects of Chapter Trans 233, Wisconsin Administrative Code, which governs development projects bordering on state highway right of ways. As you may be aware, the Joint Legislative Audit Committee recently directed the Legislative Audit Bureau to undertake a review of the major highway development program within the Department of Transportation. It is my intention to incorporate your questions about Trans 233 into that larger review.

If you have any additional information concerning this issue, or if you wish to discuss it further, please feel free to contact me.

Sincerely,

Janice Mueller

Janice Mueller
State Auditor

JM/DB/bm

cc: ✓Senator Carol A. Roessler
Co-chairperson
Joint Legislative Audit Committee

Representative Suzanne Jeskewitz
Co-chairperson
Joint Legislative Audit Committee

MAY 30 2003

State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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May 29, 2003

Representative Sheryl Albers and
Representative Lorraine Seratti
State Capitol
Madison, Wisconsin 53702

Dear Representatives Albers and Seratti:

In response to your inquiry, we have completed a limited review of the Department of Transportation's enforcement of ch. TRANS 233, Wis. Adm. Code, which governs the use of land that abuts state trunk highways and connecting highways. Under current code provisions, property owners must obtain the Department's permission before dividing their existing parcels of land or combining their land with adjacent parcels.

The Department's eight district offices enforce the administrative code's provisions, and most records are maintained there. The Department is currently working to create a central data base for land division requests, but efforts are not yet completed. As a result, summary information about enforcement activities is unavailable, and it is difficult to determine the number of ongoing cases. Therefore, we reviewed a sample of cases that were decided from January 2002 through March 2003 in two districts: Madison and Wisconsin Rapids.

Enforcement Activities

Chapter TRANS 233, Wis. Adm. Code, seeks to minimize roadway access from abutting land directly onto state trunk and connecting highways and limit the number of structures and improvements in land adjacent to highways, which is known as the setback area. The provisions are meant to promote driving safety and to preserve the public's investment in the highways.

Individuals who want to divide or combine land that abuts a state trunk or connecting highway must submit a map detailing the proposed changes and pay the Department a $110 fee. The Department may also request additional information, such as an access covenant for land that abuts the proposed land division, or a stormwater drainage analysis.

After receipt of a request to divide or combine land, the Department's district offices have 20 calendar days to decide whether to approve the request. If the request contains incomplete information, the district has 5 working days to ask for additional information, and the 20-day review period does not begin until the district receives complete information. If a district does not make a decision within 20 days after receiving all necessary information, it is considered to have no objection to the land division.

Property owners may also request a special exception from the administrative code's provisions. For example, a property owner may want to place a structure, such as a parking lot, building, or sign, within a highway setback area, or an owner may want to connect a driveway to a highway. A district office has 60 calendar days to review a request for a special exception.

Property owners formerly needed the Department's permission to place structures within 110 feet of a highway's centerline or 50 feet of the right-of-way line, whichever was farthest from the centerline. However, the Department modified its administrative code in February 2001 in response to concerns about excessive restrictions on the ability of property owners to develop their land. For example, it agreed to allow structures 15 feet or more from the right-of-way line of any state trunk or connecting highway that is not part of the national highway system, is not a principal arterial or urban highway, does not have average daily traffic greater than 5,000, or is not projected to have congestion above a certain level by the year 2020. These modified provisions apply to approximately one-third of all state trunk and connecting highways.

District Review of Land Division Requests

From January 2002 through March 2003, the Madison district office decided approximately 700 requests for land divisions and combinations under ch. TRANS 233, Wis. Adm. Code., and the Wisconsin Rapids district office decided 156 requests. Of these, we conducted a random sample of 39 requests, including 22 reviewed by the Madison district office and 17 reviewed by the Wisconsin Rapids district office. All 39 requests were approved.

As shown in Table 1, the Madison district office took an average of eight calendar days to decide requests that did not involve a special exception, and the Wisconsin Rapids district office took an average of nine days. Both district offices took less than the 20 days allowed under administrative code. For requests that involved a special exception, both district offices took less than the 60 calendar days allowed under administrative code.

Table 1

Average Number of Days Needed to Decide Land Division Requests*
January 2002 through March 2003

Land Division Requests	Madison District Office	Wisconsin Rapids District Office
No special exception	8	9
Special exception	11	24

* Based on a review of 39 land division requests.

Before deciding land division requests, district staff may ask property owners for additional information. Madison district staff requested more information for 9 of the 22 files we reviewed, and it took property owners an average of 27 days to provide it. Wisconsin Rapids district staff requested more information for 6 of the 17 files we reviewed, and it took property owners an average of 12 days to provide it. District staff noted that they sometimes request additional information verbally, but details about these requests were typically not included in the files.

Based on our file review, district staff sometimes asked the property owners to add notations to documents already submitted, such as identifying land owned by others or alerting individuals to highway setback provisions that prohibit certain land improvements. In other instances, district staff requested additional items, such as:

- a copy of the proposed certified survey map of the land;
- a map or sketch of the property owner's contiguous lands, showing existing access roads and other land details;
- an access covenant for unplatted, abutting lands owned by the property owner; or
- the required $110 fee.

Appeals Process

Property owners can appeal district decisions to the Department's central office in Madison. Administrative code requires that appeals be made within 20 calendar days after the district's decision. The central office then has 60 calendar days to decide the appeal.

As shown in Table 2, the central office received 19 appeals from January 2002 through March 2003 and had made 15 rulings as of early April 2003. It fully upheld the district decision in 5 of the 15 cases, partially upheld the district decision in 7 cases, and overturned the district decision in 2 cases. In one case, the central office decided that no appeal was necessary and dismissed the case. It took the central office an average of 48 days to decide the 15 appeals. Two appeals took longer than 60 days to decide.

The central office did not decide 4 of the 19 appeals. In two cases, the property owners withdrew their appeals before a ruling could be made. One appeal that was received in early 2003 had not been decided as of April 2003, and the central office did not consider one appeal that was initiated more than 20 days after the district office's decision.

In November 2002, the Wisconsin Builders Association filed a lawsuit in Dane County Circuit Court alleging that the Department exceeded its authority, violated constitutional provisions pertaining to property rights, and did not comply with statutory rule-making procedures in its February 1999 revisions to ch. TRANS 233, Wis. Adm. Code. For example, one of the lawsuit's nine issues notes that s. TRANS 233.017(3), Wis. Adm. Code, specifies that land shall be considered to abut a state trunk or connecting highway if it is separated from the highway by a

service road. The lawsuit alleges that the Department exceeded its statutory authority by attempting to regulate the division of land that does not directly abut a state trunk or connecting highway.

Table 2

Resolution of Appeals
January 2002 through April 2003

Resolution	Number of Cases
Central Office Ruling	
Partially upheld district decision	7
Fully upheld district decision	5
Overturned district decision	2
No appeal necessary	1
Subtotal	15
No Ruling Issued	
Appeal withdrawn	2
No decision as of April 2003	1
Too late to appeal	1
Subtotal	4
Total	19

I hope this information is helpful to you. Please contact me if you have additional questions.

Sincerely,

Janice Mueller

Janice Mueller
State Auditor

JM/DB/bm

cc: Senator Carol A. Roessler
Representative Suzanne Jeskewitz

Fed Funds next 10 yrs.

WISCONSIN STATE LEGISLATURE

Joint Audit Committee

Committee Co-Chairs:
State Senator Carol Roessler
State Representative Suzanne Jeskewitz

For Immediate Release — November 24, 2003

For More Information Contact:

Representative Suzanne Jeskewitz	(608) 266-3796
Senator Carol Roessler	(608) 266-5300

The State's Audit of the Major Highway Program Reveals Both Good News and Bad News

(Madison) Today the Legislative Audit Bureau (LAB) released an evaluation of the Department of Transportation's (DOT) Major Highway Program. The evaluation highlights the good news that the program is well funded and our highways are in good shape, but also some bad news relating to cost overruns and the need to get them under control.

The Audit Bureau conducted the evaluation of DOT's Major Highway Program at the request of the Joint Legislative Audit Committee. "The last time this program was looked at closely it was in the mid-90's and as we approach some major re-construction projects in southeast Wisconsin and other parts of the state, we want to be confident in the administration and management of the Major Highway Program," said Jeskewitz. "For me, the evaluation has revealed some difficult policy decisions that the Legislature must face regarding whether Wisconsin should only maintain its current highways or find more budget resources to expand and improve its system as the DOT's 2020 plan recommends."

The evaluation focused on project selection and its related expenditures, the effects of complying with environmental laws, financing and how Wisconsin compares to its midwestern neighbors on transportation funding. "In 1997, it took approximately six years from enumeration of a project to completion – today that number has doubled to twelve," mentioned Roessler. "There are currently 32 major highway projects in the planning or construction phase and trying to budget accurately that far out seems unlikely to me."

Cost overruns of $20 million dollars or more were identified in each of the seven current projects the Audit Bureau reviewed. "We can't afford to continue to have cost increases of this magnitude," Jeskewitz noted. "We must find a way to better project the costs of these projects or we won't be able to make good decisions on how to spend the taxpayers dollars here in Madison." Increases ranged from 45.2 percent to 262.4 percent with real estate and environmental costs driving much of the overruns.

The legislature faces a difficult decision ahead. While the program is well funded at present, the evaluation revealed that the increasing debt service would out pace bond revenues by fiscal year 2008. "Wisconsin relies solely on bonding for supplementing funding and while other midwestern states have a broader range of funding sources available to them," stated Roessler. "However, we also have the highest gas tax in the nation, while our registration fees are one of the lowest. "

The Legislative Audit Bureau has made several recommendations to DOT including:

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- Improve financial reporting by tracking the amount and cost of real estate and its environmental expenditures;
- Report complete expenditure information for all major highway projects to the Transportation Projects Commission semiannually;
- Develop policies specifying that all project costs be included in the project cost estimates that are presented in the environmental documents it prepares;
- Provide comprehensive and consistent project cost information, and communicate changes in the scope of projects.

Both Co-Chairs Jeskewitz and Roessler have agreed that a hearing on the DOT's Major Highway Program will take place in January 2004.

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NEWS

Wisconsin Department of Transportation

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www.dot.wisconsin.gov

11/25/03 #397

FOR INFORMATION CONTACT: Randy Romanski, (608)266-1114

STATE DOT RECEIVES AUDIT REPORT ON MAJOR HIGHWAY PROGRAM
Recommendations support program improvements already underway

Wisconsin Department of Transportation (WisDOT) Secretary Frank Busalacchi said today the Legislative Audit Bureau (LAB) Study of the Major Highway Program provides solid recommendations that support many of the program improvements already underway in the department.

Busalacchi said the department has implemented a number of program management changes and is evaluating a range of other measures to control costs and better manage large highway construction projects. The LAB study, called for in December 2002, contains a series of recommendations – most aimed at improving cost-reporting and cost-estimating processes – that support these activities. The study reviewed budget, expenditure and revenue data from fiscal year 1993-94 through fiscal year 2002-03, as well as estimates for the current biennium.

"Given the importance of a safe and efficient transportation network to the state's economy, the concerns raised over the cost of highway projects deserve serious consideration," Busalacchi said. "While the audit focuses on actions taken during the previous administrations, we want to do our best to provide an efficient and cost-effective major highway program.

"It is important that highway projects are constructed as cost-effectively as possible as the challenge of funding other major highway improvements moves forward," Busalacchi added.

Busalacchi said the Marquette Interchange reconstruction project is one example of the department's cost-conscious approach. The state unveiled an $810 million cost-saving design for the project after reviewing alternatives with cost estimates ranging from $890 million to over $1 billion.

Specific program improvements implemented by the department to better manage highway construction projects include:

- Value engineering studies to determine the best public value for large, complex construction projects. The department retained the services of a national consultant to conduct value engineering reviews of all major highway projects. That study identified $382 million in potential savings on 21 projects.

- Memorandums of Understanding (MOU's) between WisDOT and the Department of Natural Resources and Public Service Commission. The MOU's clarify roles and help expedite regulatory reviews related to environmental and utility concerns.

- Creation of a new Bureau of Equity and Environmental Services within WisDOT. The unit will provide better customer service and coordination on the various environmental processes and requirements related to construction projects.

- Development of more accurate cost estimates on major projects being forwarded to the Transportation Projects Commission (TPC). This includes efforts to complete more design work on a project before bringing it to the TPC and the creation of a Projects Review Committee to review project designs and assess the need for various features and changes.

WisDOT is also evaluating the use of warranties and considering design/build methods for construction projects. While State Statutes do not currently allow WisDOT to use design/build on state transportation projects, it is regarded as an effective project delivery method in the construction industry.

Under state law, a major highway project has a total cost of more than $5 million and constructs a new route of 2.5 or more miles, adds capacity to 5 or more miles of an existing highway, or converts an existing multi-lane divided highway of 10 or more miles to freeway standards.

The LAB study was requested by the Joint Legislative Audit Committee after the Transportation Projects Commission meeting of December 2002. The study included a review of environmental and other documents associated with a sample of 22 major highway projects that were enumerated from 1987 through 1991.

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NOTE: This document can be viewed on the Internet at: http://www.dot.wisconsin.gov/news

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LOCAL NEWS

Posted Nov. 25, 2003

Audit shows cost hikes in road fixes

By Ben Jones
P-C Madison bureau chief

MADISON — An audit released today of major state road projects found major cost increases in a number of projects around the state.

"We need to find ways to better get control on the cost increases and expenses," said state Sen. Carol Roessler, R-Oshkosh, co-chairwoman of the state Joint Legislative Audit Committee.

A major cost increase was found in one recent area project. Construction of State 110 from State 116 to U.S. 41 in Winnebago County was originally estimated to be $15.7 million in 1991. The project cost ballooned to $41.9 million by this June, a 166.9 percent increase, in part because the road was built as a freeway instead of a four-lane expressway as originally planned.

The report recommended that the state Department of Transportation:

n Improve financial reporting and tracking for real estate purchases and environmental expenditures.

n Report complete expenditure information to the Transportation Projects Commission.

n Develop policies that all project costs be included in environmental estimates.

n Provide comprehensive and consistent project cost information and communicate changes in project scope.

n Report to the Joint Audit Committee savings it achieves from a cost-saving study it commissioned.

State Rep. John Ainsworth, R-Shawano, said the cost increases are concerning and the Department of Transportation, like every state agency, should be watched closely.

"We need to trim where we can," said Ainsworth, chairman of the Assembly's committee on transportation.

Overall, the major highway program increased nearly 70 percent in the last 10 years.

Ben Jones can be reached at 608-255-9256 or by e-mail at bjones@postcrescent.com

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GANNETT

LOCAL NEWS

Posted Nov. 26, 2003

Oversight sought on road costs

View audit of state highway projects(pdf) ***(more)***

Audit shows major jump in price tag

By Ben Jones
P-C Madison bureau chief

MADISON — A Fox Valley lawmaker says that when the price tag on a state highway project is about to go up, the public should know about it.

"There needs to be accountability," state Sen. Carol Roessler, R-Oshkosh, said Tuesday, after an audit found massive increases in the cost of some road-building projects.

The state Legislative Audit Bureau found that costs associated with the state's major highway program have increased by 69.5 percent in the past 10 years to $284.2 million.

Seven highway projects each increased in cost by more than $20 million before work was complete.

Roessler, who co-chairs the state's Joint Legislative Audit Committee, which requested the audit, said cost surprises in road building should be avoided. She said the state Department of Transportation should regularly update the state Transportation Projects Commission on the status of projects and costs.

"Those are discussions that ought to be held," Roessler said.

In a written response to the audit, state Transportation Secretary Frank Busalacchi said concerns raised over highway costs deserve serious consideration.

"It is important, now more than ever, to ensure that the department constructs highway projects as cost-effectively as possible," Busalacchi said, noting budget challenges.

The audit found that in the seven projects it reviewed in detail, cost increases ranged from 45.2 percent to 262.4 percent. Costs for one area project — construction of State 110 between U.S. 41 and State 116 — increased 167 percent to $41.9 million.

That project was planned as a four-lane expressway, but the DOT later built it as a freeway, which required costly frontage roads and bridges.

Roessler said price-raising factors, such as escalating real estate costs, can surface during the 12 years it takes to construct a highway.

She said better record keeping and forecasting is needed in the DOT.

The audit made several recommendations:

• Improve financial reporting by tracking the amount and cost of real estate and environmental expenses.

• Report complete expense information semiannually for all major highway projects to the Transportation Projects Commission.

• Develop policies that specify that all project costs be included in environmental estimates.

• Provide comprehensive and consistent project cost information, and communicate changes in the scope of projects.

State Rep. John Ainsworth, R-Shawano, chairman of the Assembly Committee on Transportation, said road-building costs should be watched closely.

"There are some projects that are needed, there are some areas that need recovering or even replacing, but we have to be very careful not to overdo it," he said.

Ben Jones can be reached at 608-255-9256 or by e-mail at bjones@postcrescent.com

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Appleton Post-Crescent November 26, 2003

Oversight sought on road costs

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On the Web

To see the Legislative Audit Bureau's complete report and a letter of response from Transportation Secretary Frank Busalacchi, go to **www.postcrescent.com**

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Ben Jones can be reached at 608-255-9256 or by e-mail at bjones@postcrescent.com.

Milwaukee Journal Sentinel November 30, 2003

EDITORIALS

Who's minding the store?

Critics of passenger rail systems — no matter what form the rail takes — like to point out that building these systems costs a lot of money. But what many of those critics choose to ignore is that laying down concrete and asphalt also is an expensive proposition. Sometimes excessively so.

For proof, one need look no further than a newly released state audit showing that seven major highway projects have led to cost overruns of at least $20 million each. The price tags on five of those projects were double and triple the original estimates.

In each case, the costs rose, the auditors reported, because the state Transportation Department chose to build larger and more elaborate highways than originally planned — and sometimes more than independent engineering firms said were needed.

The Legislative Audit Bureau reported that the total overruns on those seven projects — a whopping $381 million — ate up so many of the state's highway dollars that even the Transportation Department warned that the Legislature couldn't afford to approve any more big projects.

Despite that advice and over the objections of the Transportation Projects Commission, lawmakers approved four more major projects — totaling $628.7 million — as part of the latest two-year state budget.

Lawmakers, not transportation officials, deserve the blame for that fiscally irresponsible call. But the Transportation Department is culpable, too, because road projects don't need to cost as much as they do, the auditors said.

In November 2002, an independent engineering firm hired by the Transportation Department came up with ways to save a total of $382 million on 21 projects through a process known as value engineering. Inexcusably, the department chose not to implement most of those measures.

Transportation Secretary Frank Busalacchi said his department already is complying with the auditors' recommendations. He also noted that most of the decisions criticized by auditors were made during previous administrations.

In fairness, there are some extenuating circumstances. The auditors noted that one reason for the overruns was that the average time it took for a road project to be approved and completed has grown to 12 years. During that time, construction costs and particularly real estate costs rose significantly.

Even so, design changes also had a lot to do with the overruns, the auditors said. Sen. Carol Roessler (R-Oshkosh), co-chairman of the Legislature's Joint Audit Committee, called the overruns outrageous, adding that "it's business as usual" for the Transportation Department and its contractors.

But it shouldn't be. Roessler said that when her committee holds a hearing in January on the audit, she will press Transportation Department officials about why they have not asked for value engineering recommendations. The audit bureau recommended that value engineering be undertaken on all major projects. We'll go a step further — the state should require it.

A look at some highway project costs

(Published Wednesday, November 26, 2003 09:06:15 AM CST)

Associated Press

The Legislative Audit Bureau reviewed seven current highway projects to help determine the reasons for the cost increases for major road projects by the state Department of Transportation. The review found:

U.S. Highway 12-Whitewater bypass project

-Costs more than tripled from 1991 to June 2003, from $10.1 million to $36.6 million.

-State transportation officials extended the project from 5.3 miles of two-lane highway to 6.3 miles and purchased enough land to upgrade the highway to four lanes in the future.

-The changes required the construction of more costly bridges and the purchase and relocation of more residential and commercial properties.

***

State Highway 110-U.S. Highway 41 to State Highway 116 near Oshkosh

-Costs increased from $15.7 million in 1991 to $41.9 million in June 2003.

-The project was originally planned as a four-lane expressway, but DOT built much of the project as a freeway, which required the construction of frontage roads and more costly bridges.

***

State Highway 29-Chippewa Falls bypass

-Costs for the project, which is made up of two separate projects, increased from $77.2 million in 1991 to $164 million in June 2003.

-The original design added two highway lanes next to the existing two-lane highway. The final design relocated 6 miles of the highway, which required the purchase of considerably more

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land and the construction of four new highway lanes.

-Five miles more than originally planned were built as a freeway, which required an additional interchange and two overpasses.

-Two existing interchanges were expanded, and two new interchanges were added to the project.

***

State Highway 64-Houlton to New Richmond

-Costs increased from $55.3 million in 1993 to $116.5 million in June 2003.

-DOT originally planned the project as a four-lane expressway. It later changed the plan and built most of the project as a freeway.

-The changes increased construction costs and required more costly bridges, two additional interchanges and two additional overpasses.

***

U.S. Highway 12-Sauk City to Middleton

-Costs increased from $64.1 million in 1993 to $129.8 million in June 2003.

-The increase is attributable to $23 million in higher real estate costs that occurred because of project delays and the planned upgrade of a portion of the Middleton bypass from a 60- to a 70-miles-per-hour design speed.

***

U.S. Highway 53-Eau Claire bypass

-Costs increase from $99.3 million in 1995 to $145.4 million in June 2003.

-The increase resulted from the expansion of an interchange to allow access to state Highway 93, which was not included in the original project plan.

***

Interstate 39/U.S. Highway 51-Wausau beltline

-Costs increased from $151.5 million in 2001 to $220 million in June 2003.

-About $30 million of the increase resulted from a decision by DOT to upgrade an interchange from a 45- to a 60-miles-per-

hour design speed; five bridges were added and several other bridges were lengthened to accommodate the traffic speed.

Source: Legislative Audit Bureau

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GANNETT

LOCAL NEWS

Posted Nov. 20, 2003

Bill would boost state highway aid

Plan seeks 8-cent per gallon gas tax to fund projects

By Brian Tumulty
Gannett News Service

WASHINGTON — Wisconsin would get a $1.1 billion increase in federal money for highways and $215 million for transit projects in a bipartisan transportation reauthorization bill House members unveiled Wednesday.

The $375 billion bill would increase overall federal transportation spending by 52 percent. But how to pay for it will be left to the tax-writing House Ways and Means Committee early next year.

Fully financing the bill could require an increase of up to 8 cents a gallon in the federal 18.4-cent-a-gallon gas tax.

Supporters of the legislation say the cost of delaying overdue infrastructure improvements would be longer traffic jams, a less efficient transportation system for shipping merchandise and no further reduction of the 42,000 annual highway deaths.

"We're going to pay as a nation either way," agreed Rep. Tom Petri, chairman of the Highways, Transit and Pipelines Subcommittee and one of the four authors of the proposal.

Highway funds

Wisconsin received $536.1 million in federal highway money for the 2003 fiscal year that ended Sept. 30.

The new bill, dubbed the Transportation Equity Act: A Legacy for Users (TEA LU), would authorize the state to receive $600.3 million in the current fiscal year.

During the next six years, Wisconsin would receive $4.4 billion compared to $3.28 billion in the past six years.

In addition, the state would be eligible for a share of several other programs:

- $7.5 billion program for safety improvements at grade-level railroad crossings.
- $1.5 billion to help create safe routes for students to walk or bicycle to school.
- $1.5 billion to improve safety on rural, two-lane highways.

The bill calls for creation of a transportation research consortium that would

If transportation improvements are not made, the nation's economy will become less efficient and less competitive, the Fond du Lac Republican said.

include the universities of Wisconsin and Illinois.

Although the legislation isn't expected to reach the House floor until spring, it already has enthusiastic support from state highway agencies, mayors, contractors and labor unions.

Gov. Jim Doyle described the House bill as a good start.

"We appreciate the effort being made to maximize the amount of federal transportation funding," Doyle said Wednesday. "Investing in the transportation infrastructure is an important part of my Grow Wisconsin plan."

Highway construction has dropped 8 percent in the past year, according to Stephen Sandherr, chief executive of the Associated General Contractors of America.

"We need the work. We need it desperately," said Frank Hanley, president of the International Union of Operating Engineers representing workers who operate bulldozers, cranes and other heavy construction equipment.

Highway business and labor groups prefer the $375 billion House bill over a more modest $311 billion Senate bill and the Bush administration's proposal to spend $247 billion.

In the House proposal, the increase in federal money would end the drain created by the expensive Marquette interchange project in Milwaukee.

"It would be more than enough to fund the full cost of the Marquette interchange and free up funds at the state level for other projects all across Wisconsin," Petri said.

Federal highway and transit money is now frozen at prior-year levels because Congress failed to reauthorize the recently expired federal Transportation Equity Act for the 21st Century.

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Robert Trimmier 414-232-1466

Audit shows DOT mismanagement, contempt for taxpayers

Nov. 26 – The Wisconsin Department of Transportation's total failure to make serious efforts to control spiraling costs of major highway projects is a clear indication of the agency's disregard for taxpayers, Citizens Allied for Sane Highways said Wednesday.

The Legislative Audit Bureau studied seven current projects that were each at least $20 million over original estimates. Increases ranged from 45.2% to 262.4%.

"DOT never met a dollar it couldn't spend, even if that dollar still was in a taxpayer's pocket," CASH co-chair Robert Trimmier said. "This audit clearly shows that the agency is totally beholden to the road building industry and has been the road builders' willing captive for years. "

CASH also expressed concern that DOT may have violated the Open Records Law.

"The audit says that DOT tracks expenditures by its own staff, but does not retain the information after the project is complete," CASH co-chair Gretchen Schuldt said. "Our concern is that DOT may be disposing of records it should maintain under the law for public review."

CASH is a coalition formed to oppose freeway expansion in Milwaukee.

"The early estimate was that the proposed southeastern Wisconsin freeway expansion project would cost $6.2 billion, and there is no funding plan for it," Trimmier said. "Given DOT's terrible track record, the actual cost will be much, much higher if this boondoggle goes forward. Who's going to pay for it? And how?"

WisDOT is considering the Southeastern Wisconsin Regional Planning Commission's recommendation to expand freeways in the Milwaukee area. DOT hired SEWRPC to conduct the study that led to the recommendation for expansion.

"DOT has acted as irresponsibly on the first phase of Milwaukee freeway reconstruction – the Marquette Interchange project – as it has on the other highway projects the Audit Bureau examined," Schuldt said. "The Marquette cost was estimated at $460 million in 1997; now it's going to cost $810 million to complete just part of it. Finishing the whole thing will cost much more."

"DOT has been an embarrassment to even the concepts of good government and fiscal accountability," Trimmier said. "I hope DOT learns from the audit, and scales back some projects -- starting with the bloated freeway expansion plan -- that this state does not need and cannot afford."

03-13

An Evaluation:

Major Highway Program

Department of Transportation

November 2003

Report Highlights ■

The cost of some major highway projects has increased considerably after enumeration.

Better financial record-keeping is needed for the major highway program.

DOT's FY 2001-02 environmental expenditures were $29.1 million.

The State's increasing reliance on bond proceeds to fund highway projects raises concerns.

Maintaining and expanding the State's highway system involves many challenges.

The Department of Transportation (DOT) is responsible for building and maintaining Wisconsin's transportation infrastructure and, under the major highway program, constructs new or expanded state highways. The 15-member Transportation Projects Commission reviews DOT's proposals for major highway projects and recommends projects for enumeration by the Legislature and the Governor.

In fiscal year (FY) 2002-03, the major highway program's budget was $241.6 million. In September 2003, 32 major highway projects were being planned or were under construction. However, in December 2002, DOT had indicated that four of these projects could not be enumerated because the program's increasing costs had reduced the amount of funding available for additional projects. Legislators raised concerns about this disclosure, as well as about the availability of funds to reconstruct the aging southeast Wisconsin freeway system and the extent to which bonds have been used to fund highway projects. Therefore, at the direction of the Joint Legislative Audit Committee, we evaluated:

- project selection, program expenditures, and cost increases related to the program;
- the effects of state and federal environmental laws on highway construction costs and practices;
- financing for transportation projects; and
- how Wisconsin's highways, transportation funding, and transportation spending compare to other midwestern states', and future financial demands on the Transportation Fund.

Key Facts and Findings

In August 2003, 32 major highway projects were being planned or were under construction.

Real estate expenditures for the major highway program nearly quadrupled in ten years and reached $43.8 million in FY 2002-03.

It will take more than 12 years, on average, from enumeration to construction completion for current projects.

From FY 1993-94 to FY 2002-03, transportation revenue increased 49.6 percent.

Wisconsin's state fuel tax is the highest in the nation, and DOT's largest revenue source.

Bond debt service costs totaled $101.1 million in FY 2002-03 and are increasing.

Wisconsin's state highways are funded at levels comparable to six other midwestern states'.

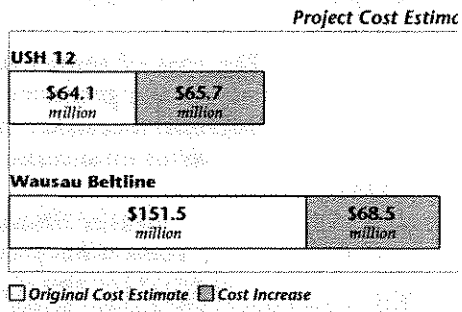
Project Cost Increases

DOT's expenditures for the major highway program increased 69.5 percent in the past ten years and totaled $284.2 million in FY 2002-03. Construction contract costs, which accounted for nearly three-quarters of FY 2002-03 expenditures, increased 67.9 percent since FY 1993-94. In contrast, real estate expenditures nearly quadrupled, reaching $43.8 million in FY 2002-03.

It will take more than 12 years, on average, to complete the projects that were underway in June 2003. DOT has considerable discretion in scheduling and designing major highway projects and may change a project's design to accommodate local officials, concerned citizens, and others the project will affect. Such changes can increase project costs significantly.

To help determine the reasons for cost increases in major highway projects, we reviewed seven current projects for which costs increased by at least $20.0 million each. We found:

- The cost estimate for the United States Highway (USH) 12 (Sauk City to Middleton) project increased from $64.1 million when it was enumerated in 1993 to $129.8 million in June 2003. The increase is attributable to $23.0 million in higher real estate costs that occurred because of project delays, and to upgrading a portion of the Middleton bypass.
- The cost estimate for the Inter state 39/USH 51 (Wausau beltline) project increased fror $151.5 million when it was enumerated in 2001 to $220.0 million in June 2003. Approximately $30.0 million (the increase resulted from a decision to upgrade the desigr speed of an interchange to 60 miles per hour, which resulted in five bridges being added to the project and several other bridges being lengtl ened to accommodate the higher traffic speed.



In 2002, DOT commissioned a value engineering study to identif potential cost savings on 21 major highway projects without alterin their purpose or lowering safety, quality, or environmental standards. The study cost $247,000.

In its November 2002 report, the engineering firm DOT hired ident fied $382.0 million in potential savings. For example, it recommended that DOT construct two lanes, instead of four, on highway with low traffic volume. The firm also recommended scaling back several projects to their original planned scope. As of November 2003, DOT is continuing to analy

much of the $382.0 million in posed savings measures it will lement.

ancial Reporting

T's financial record-keeping em makes it difficult to analyze enditures for individual major hway projects. While DOT duces a monthly report that ws per project expenditures, report excludes design and struction engineering expendi- s, even though they can ount for more than one-quarter ll project costs.

cking changes to major highway jects is also made difficult by T's practice of separating por- s of projects and combining m with other projects.

vironmental Expenditures

e and federal laws require DOT void, minimize, and mitigate mful environmental effects sed by transportation projects. T estimates its FY 2001-02 envi- mental expenditures for all state hway projects were $29.1 million. se expenditures include the ts of construction work, consult- contracts, payments to the artment of Natural Resources l the State Historical Society, and T's own staffing costs.

istruction contractors believe ir total costs to comply with all ironmental regulations are ificantly higher than DOT's mates, but neither DOT nor the contractors provided supporting documentation to independently verify their estimates.

Revenue Sources

DOT is funded primarily by federal, state, and local revenue, as well as by proceeds from bonds. However, its largest revenue source is state fuel taxes. Transportation revenue for all DOT programs increased 49.6 percent from FY 1993-94 to FY 2002-03, when it totaled $2.3 billion.

The major highway program has long been funded, in part, by transportation revenue bonds, which are repaid with proceeds from vehicle registration, title transfer, and related fees. The issuance of revenue bonds has allowed DOT to construct major highway projects without heavy reliance on other funding sources, but the resulting debt service leaves fewer funds available for projects.

Debt service totaled $101.1 million in FY 2002-03. The proportion of registration fee revenue required to cover debt service costs has been increasing and reached 27.4 percent in FY 2002-03. DOT estimates that annual debt service payments will exceed revenue bond proceeds from FY 2008-09 onward.

2003 Wisconsin Act 33, the 2003-05 Biennial Budget Act, expanded the issuance of bonds. It stipulated that $565.5 million in general obligation bonds will be issued to fund, for the first time, rehabilitation projects and the southeast Wisconsin freeways program. Debt service costs for these bonds issued in the 2003-05 biennium will total $767.6 million through FY 2024-25.

As a result of recent legislation, the Transportation Fund will cover debt service costs during the 2003-05 biennium, but the General Fund will cover the costs thereafter.

Future Considerations

We compared Wisconsin's transportation funding sources, spending, and state highway conditions with other midwestern states'.

Wisconsin ranks in the middle of seven midwestern states on state highway spending and conditions, but it relies on fewer sources of transportation revenue. It has the nation's highest gasoline tax rate, at 31.5 cents per gallon, but its $55 annual vehicle registration fee is among the lowest in the Midwest. In 2001, 79.9 percent of Wisconsin state highways had low levels of traffic congestion, and 57.5 percent had good or excellent pavement conditions.

The State's investments to date have resulted in a highway system that is generally in good condition, but policy-makers face many challenges as they seek to maintain existing highways and expand the system to meet future needs. These include:

- a $5.2 billion shortfall identified in DOT's long-range state highway plan;

- reconstruction of the aging southeast Wisconsin freeway system, which has not yet been fully funded;
- increasing reliance on bonding;
- commitments to complete the 32 major highway projects currently enumerated; and
- the needs of other transportation programs that DOT manages.

Recommendations

Our recommendations address the need for DOT to:

☑ improve financial reporting by tracking:
- the amount and cost of all real estate it purchases for each major highway project (*p. 26*); and
- its environmental expenditures, and reporting its plan for doing so to the Joint Audit Committee by June 1, 2004 (*p. 42*);

☑ report to the Joint Audit Committee by February 2, 2004, on the amount of savings it expects to achieve as a result of its 2002 value engineering study (*p. 31*);

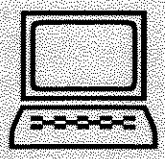
☑ report complete expenditure information for all major highway projects to the Transportation Projects Commission semiannually (*p. 32*);

☑ develop policies specifying that all project costs be included in the project cost estimates that are presented in the environmental documents it prepares (*p. 43*); and

☑ provide comprehensive and consistent project cost information, and communicate changes in the scope of projects (*p. 70*).

Additional Information

For a copy of report 03-13, which includes a response from the Department of Transportation, call **(608) 266-2818** or visit our Web site:



www.legis.state.wi.us/lab

Address questions regarding this report to:

Don Bezruki
(608) 266-2818

The Legislative Audit Bureau is a nonpartisan legislative service agency that assists the Wisconsin Legislature in maintaining effective oversight of state operations. We audit the accounts and records of state agencies to ensure that financial transactions and management decisions are made effectively, efficiently, and in compliance with state law, and we review and evaluate the performance of state and local agencies and programs. The results of our audits, evaluations, and reviews are submitted to the Joint Legislative Audit Committee.

Legislative Audit Bureau

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An Evaluation

Major Highway Program

Department of Transportation

LEGISLATIVE AUDIT BUREAU

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From the Department of Transportation

State of Wisconsin \ LEGISLATIVE AUDIT BUREAU

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November 25, 2003

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

We have completed an evaluation of the Department of Transportation's (DOT's) major highway program, as requested by the Joint Legislative Audit Committee. In fiscal year (FY) 2002-03, DOT's total budget was $2.4 billion; the major highway program's portion of the budget was $241.6 million. In September 2003, 32 major highway projects were being planned or were under construction.

Major highway program funds can be used only for new construction projects that are specifically enumerated in statutes. To help determine the reasons for cost increases that occur between enumeration and completion, we reviewed seven current projects. We found that the estimated cost for each had increased by at least $20.0 million since enumeration. The discretion DOT currently exercises in project selection, location, and design greatly affected these projects' costs.

We attempted to track the cost of complying with state and federal environmental laws, but the information DOT maintains on these expenditures is incomplete. DOT estimates that in FY 2001-02—the latest year for which data are available—these costs totaled $29.1 million; however, contractors provided us with other examples of costs not included in DOT's estimates. We include a recommendation for improving DOT's monitoring of environmental expenditures.

We compared Wisconsin's transportation funding sources, spending, and highway conditions with other midwestern states'. Wisconsin is in the middle in state highway spending and conditions, but it relies on a narrower funding base and is increasingly using bonding for the highway program. As debt service increases, the amount of funds available to support future projects decreases. We list a number of challenges DOT and the Legislature will face as they seek to maintain the existing highways or expand the system to meet safety, economic development, and other needs. We also include a number of recommendations for improving DOT's estimating and cost-reporting processes.

We appreciate the courtesy and cooperation extended to us by DOT staff. The agency's response follows the appendices.

Respectfully submitted,

Janice Mueller

Janice Mueller
State Auditor

JM/DB/ss

Report Highlights ■

The cost of some major highway projects has increased considerably after enumeration.

Better financial record-keeping is needed for the major highway program.

DOT's FY 2001-02 environmental expenditures were $29.1 million.

The State's increasing reliance on bond proceeds to fund highway projects raises concerns.

Maintaining and expanding the State's highway system involves many challenges.

The Department of Transportation (DOT) is responsible for building and maintaining Wisconsin's transportation infrastructure and, under the major highway program, constructs new or expanded state highways. The 15-member Transportation Projects Commission reviews DOT's proposals for major highway projects and recommends projects for enumeration by the Legislature and the Governor.

In fiscal year (FY) 2002-03, the major highway program's budget was $241.6 million. In September 2003, 32 major highway projects were being planned or were under construction. However, in December 2002, DOT had indicated that four of these projects could not be enumerated because the program's increasing costs had reduced the amount of funding available for additional projects. Legislators raised concerns about this disclosure, as well as about the availability of funds to reconstruct the aging southeast Wisconsin freeway system and the extent to which bonds have been used to fund highway projects. Therefore, at the direction of the Joint Legislative Audit Committee, we evaluated:

- project selection, program expenditures, and cost increases related to the program;
- the effects of state and federal environmental laws on highway construction costs and practices;
- financing for transportation projects; and

- how Wisconsin's highways, transportation funding, and transportation spending compare to other midwestern states', and future financial demands on the Transportation Fund.

Project Cost Increases

DOT's expenditures for the major highway program increased 69.5 percent in the past ten years and totaled $284.2 million in FY 2002-03. Construction contract costs, which accounted for nearly three-quarters of FY 2002-03 expenditures, increased 67.9 percent since FY 1993-94. In contrast, real estate expenditures nearly quadrupled, reaching $43.8 million in FY 2002-03.

It will take more than 12 years, on average, to complete the projects that were underway in June 2003. DOT has considerable discretion in scheduling and designing major highway projects and may change a project's design to accommodate local officials, concerned citizens, and others the project will affect. Such changes can increase project costs significantly.

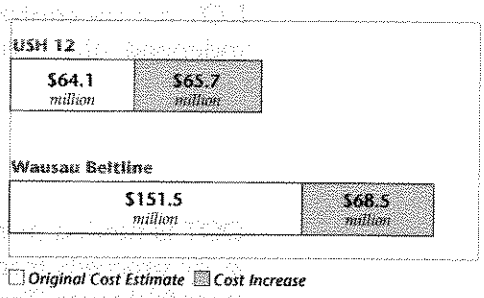
To help determine the reasons for cost increases in major highway projects, we reviewed seven current projects for which costs increased by at least $20.0 million each. As shown in Figure 1, we found:

- The cost estimate for the United States Highway (USH) 12 (Sauk City to Middleton) project increased from $64.1 million when it was enumerated in 1993 to $129.8 million in June 2003. The increase is attributable to $23.0 million in higher real estate costs that occurred because of project delays, and to upgrading a portion of the Middleton bypass.

- The cost estimate for the Interstate 39/USH 51 (Wausau beltline) project increased from $151.5 million when it was enumerated in 2001 to $220.0 million in June 2003. Approximately $30.0 million of the increase resulted from a decision to upgrade the design speed of an interchange to 60 miles per hour, which resulted in five bridges being added to the project and several other bridges being lengthened to accommodate the higher traffic speed.

Figure 1

Project Cost Estimates



In 2002, DOT commissioned a value engineering study to identify potential cost savings on 21 major highway projects without altering their purpose or lowering safety, quality, or environmental standards. The study cost $247,000.

In its November 2002 report, the engineering firm DOT hired identified $382.0 million in potential savings. For example, it recommended that DOT construct two lanes, instead of four, on highways with low traffic volume. The firm also recommended scaling back several projects to their original planned scope. As of November 2003, DOT is continuing to analyze how much of the $382.0 million in proposed savings measures it will implement.

Financial Reporting

DOT's financial record-keeping system makes it difficult to analyze expenditures for individual major highway projects. While DOT produces a monthly report that shows per project expenditures, the report excludes design and construction engineering expenditures, even though they can account for more than one-quarter of all project costs. Tracking changes to major highway projects is also made difficult by DOT's practice of separating portions of projects and combining them with other projects.

Environmental Expenditures

State and federal laws require DOT to avoid, minimize, and mitigate harmful environmental effects caused by transportation projects. DOT estimates its FY 2001-02 environmental expenditures for all state highway projects were $29.1 million. These expenditures

include the costs of construction work, consultant contracts, payments to the Department of Natural Resources and the State Historical Society, and DOT's own staffing costs. Construction contractors believe their total costs to comply with all environmental regulations are significantly higher than DOT's estimates, but neither DOT nor the contractors provided supporting documentation to independently verify their estimates.

Revenue Sources

DOT is funded primarily by federal, state, and local revenue, as well as by proceeds from bonds. However, its largest revenue source is state fuel taxes. Transportation revenue for all DOT programs increased 49.6 percent from FY 1993-94 to FY 2002-03, when it totaled $2.3 billion.

The major highway program has long been funded, in part, by transportation revenue bonds, which are repaid with proceeds from vehicle registration, title transfer, and related fees. The issuance of revenue bonds has allowed DOT to construct major highway projects without heavy reliance on other funding sources, but the resulting debt service leaves fewer funds available for projects. Debt service totaled $101.1 million in FY 2002-03. The proportion of registration fee revenue required to cover debt service costs has been increasing and reached 27.4 percent in FY 2002-03. DOT estimates that annual debt service payments will exceed revenue bond proceeds from FY 2008-09 onward.

2003 Wisconsin Act 33, the 2003-05 Biennial Budget Act, expanded the issuance of bonds. It stipulated that $565.5 million in general obligation bonds will be issued to fund, for the first time, rehabilitation projects and the southeast Wisconsin freeways program. Debt service costs for these bonds issued in the 2003-05 biennium will total $767.6 million through FY 2024-25. As a result of recent legislation, the Transportation Fund will cover debt service costs during the 2003-05 biennium, but the General Fund will cover the costs thereafter.

Future Considerations

We compared Wisconsin's transportation funding sources, spending, and state highway conditions with other midwestern states'. Wisconsin ranks in the middle of seven midwestern states on state highway spending and conditions, but it relies on fewer sources of transportation revenue. It has the nation's highest gasoline tax rate, at 31.5 cents per gallon, but its $55 annual vehicle

registration fee is among the lowest in the Midwest. In 2001, 79.9 percent of Wisconsin state highways had low levels of traffic congestion, and 57.5 percent had good or excellent pavement conditions.

The State's investments to date have resulted in a highway system that is generally in good condition, but policy-makers face many challenges as they seek to maintain existing highways and expand the system to meet future needs. These include:

- a $5.2 billion shortfall identified in DOT's long-range state highway plan;
- reconstruction of the aging southeast Wisconsin freeway system, which has not yet been fully funded;
- increasing reliance on bonding;
- commitments to complete the 32 major highway projects currently enumerated; and
- the needs of other transportation programs that DOT manages.

Recommendations

Our recommendations address the need for DOT to:

☑ improve financial reporting by tracking:
- the amount and cost of all real estate it purchases for each major highway project (*p. 26*); and
- its environmental expenditures, and reporting its plan for doing so to the Joint Audit Committee by June 1, 2004 (*p. 42*);

☑ report to the Joint Audit Committee by February 2, 2004, on the amount of savings it expects to achieve as a result of its 2002 value engineering study (*p. 31*);

☑ report complete expenditure information for all major highway projects to the Transportation Projects Commission semiannually (*p. 32*);

- ☑ develop policies specifying that all project costs be included in the project cost estimates that are presented in the environmental documents it prepares (*p. 43*); and

- ☑ provide comprehensive and consistent project cost information, and communicate changes in the scope of projects (*p. 70*).

■ ■ ■ ■