



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #774

Harbor Assistance Program (DOT -- Local Transportation Assistance)

[LFB 2009-11 Budget Summary: Page 623, #7]

CURRENT LAW

The Department of Transportation's harbor assistance program provides grants for improvements to harbor facilities on Lake Michigan, Lake Superior, and the Mississippi River system. Eligible projects include dockwall and disposal facility improvements, dredging and dredged material disposal, or other physical improvements that maintain or increase commodity or passenger movement capabilities. Both publicly and privately owned harbor facilities that serve freight or passenger vessels are eligible for assistance. State funds provide up to 80% of the cost of the project, while the project applicant must pay the remaining cost. The state share is paid either from an appropriation from the transportation fund or from the proceeds of general obligation bonds provided for the program. In 2007-09, the program is funded at \$13,700,000, which consists of an appropriation of \$500,000 SEG annually and a bond authorization of \$12,700,000. Debt service on the bonds is paid from the transportation fund.

The Department has an advisory committee that evaluates and recommends projects for funding, based primarily on a benefit-cost analysis prepared by the Department. The committee is composed of representatives from organizations with a role in waterborne commerce, including the Department of Commerce, the state's coastal management program, and the U.S. Army Corp of Engineers.

GOVERNOR

Provide \$19,050,000 in general obligation bond authority for the harbor assistance program, an increase from \$12,700,000 in bonds provided in the 2007-09 biennium.

DISCUSSION POINTS

1. Wisconsin is situated in an advantageous position for waterborne commerce, with direct harbor access to two Great Lakes and the Mississippi River system. Although domestic shipments account for most commerce, both systems allow for access to international trade via the Gulf of Mexico or the St. Lawrence Seaway. The Department of Transportation's harbor assistance program has been making grants since 1980 to improve the state's access points to these water systems.

2. The waterborne commerce industry faces several current challenges. Reduced water levels in the Great Lakes have increased the demand for dredging, at the same time that many port facilities and locks are requiring rehabilitation or replacement. In addition, international shipping on both the Great Lakes and the Mississippi River has contributed to the introduction of several invasive species that disrupt the native ecosystems and harm other water-based industries. Regulatory changes designed to address this problem will likely increase the costs of international shipping in the future. The Department indicates that these issues have contributed to increased demand for harbor assistance grants, although deferred maintenance in previous years at many ports remains the most significant issue.

3. The following table shows the total funding for harbor improvement projects since the 1993-95 biennium (excluding program administration), including the proposed level of funding under the bill. Throughout this period, assistance has been provided through a combination of SEG appropriations and transportation fund-supported bonds.

<u>Biennium</u>	<u>SEG Appropriation</u>	<u>Bonds</u>	<u>Total Funding</u>
1993-95	\$1,000,000	\$3,000,000	\$4,000,000
1995-97	1,000,000	3,000,000	4,000,000
1997-99	1,000,000	3,000,000	4,000,000
1999-01	1,000,000	7,000,000	8,000,000
2001-03	1,000,000	3,000,000	4,000,000
2003-05	1,000,000	3,000,000	4,000,000
2005-07	1,000,000	12,700,000	13,700,000
2007-09	1,000,000	12,700,000	13,700,000
2009-11*	987,600	19,050,000	20,037,600

* Proposed funding level under the bill.

4. As shown in the table, the total amount of funding for harbor improvement projects in the 2009-11 biennium would be \$20,037,600, an increase of \$6,337,600, or 46.3%, over the amount provided in the 2007-09 biennium. In its budget request, the Department of Transportation had requested \$13,700,000 for the 2009-11 biennium (\$1,000,000 in base SEG funds plus \$12,700,000 in bonds), which is the same amount provided in the 2007-09 biennium. The Department of Administration indicates that the additional funding was recommended because overall demand exceeds current funding. In February, the Department's advisory committee for evaluating harbor improvement projects recommended six projects for funding with a total grant amount of \$11.8 million for grants (although one of the project sponsors has since withdrawn its

application, reducing the total amount remaining to \$9.5 million). Since the harbor assistance program had only \$7.5 million of funding for harbor projects remaining in the 2007-09 biennium, it was assumed that some grants would be made with funding from the 2009-11 biennium. Under the Department's budget request, awarding funding for the five projects grants would have left \$11.7 million available for new projects in the 2009-11 biennium, while under the bill, about \$18.0 million would be available for new projects, an increase of 31.4% over the amount made available in the 2007-09 biennium.

5. To be eligible for harbor assistance, a project must be identified in a three-year harbor improvement plan, which are prepared annually by harbor program participants. For the most recent plans submitted to the Department, there are a total of 42 improvement projects identified for possible construction in 2010 and 2011, with a total estimated state share of \$71.7 million. Of these, local governments or port authorities rated 22 as highest priority, totaling \$37.7 million. Consequently, even if the Governor's recommended funding increase is approved, the Department would be able to fund less than one-half of the highest-rated projects.

6. Since its creation, eligibility under the harbor assistance program applied to harbors where: (a) vessels take on or discharge a combined total of at least 1,000 tons of commercial cargo per year; (b) commercial, naval, or recreational vessels are built; (c) vehicle-carrying ferries connect the mainland with other states or populated islands; or (d) commercial fishing vessels unload fish. Eligibility for the program was expanded in the 2001-03 biennial budget (2001 Act 16) to include projects related to passenger ferries and cruise ships (in addition to vehicle ferries) and again during the 2003-05 session, with the passage of 2003 Act 208, to include privately-owned harbor facilities.

7. The more recent changes to program eligibility may have allowed certain projects to receive funding that otherwise would not have been eligible, but the extent of the impact is not clear. With regard to cruise ship operations, the Act 16 change allows the economic impact associated with those operations to be included in a benefit-cost analysis for a particular project, but the Department's rules specify that projects that benefit cruise vessel operations are to be given a lower priority than projects related to cargo or ferry operations. Allowing privately-owned harbor facilities to receive grants has likely increased the potential number of project applications, but even prior to the Act 208 change, some businesses with privately-owned harbor facilities could receive the benefits from harbor improvement grants if they were willing to sell their facility to a public port authority or other local government entity, and then lease it back from the public entity. This continues to be a common arrangement for some projects, even if a single private business is the primary beneficiary. However, there may be some privately-owned facilities that currently compete for grants whose owners, for various reasons, were previously not willing or unable to enter into a sale and lease-back arrangement.

8. Regardless of the specific impact of the program eligibility changes, there has clearly been an increase in demand for harbor assistance grants over the past 10 years. In comparison with the \$71.7 million in potential projects for 2010 and 2011 included in the 2009 three-year harbor plans (state share), there were \$10.8 million in potential projects for 2000 and 2001 in the 1999 three-year harbor plans.

9. A few trends in the increase in demand for harbor assistance are notable. First, there

appears to have been an increase in demand over the past few biennia for projects that, regardless of ownership of the facility, primarily benefit a single business or single user of a harbor facility. Second, although facilities related to the manufacture of vessels have always been eligible for assistance under the program, the Department has recently provided a larger share of grants for ship or yacht construction and maintenance facilities. As an example of both trends, of the \$11.8 million in project grants for six projects approved in February, 2009, four of the projects, with grants totaling \$9.6 million, are for projects benefiting a single business, and three of these are for yacht manufacturing or ship maintenance facilities (although one of the these three has been withdrawn).

10. There are other state programs, like the harbor assistance program, that provide assistance to individual business or are designed to assist a particular industry. Such programs may help Wisconsin businesses compete with similar businesses in other states or internationally, which may, in turn, help to create or retain jobs in the state. However, these programs collectively do not have enough funding to assist all businesses with grants that supplement or substitute for their own investments. In practice, therefore, whether or not a business receives assistance may be depend upon whether there is a program targeted toward its particular industry, not whether the assistance provides the greatest overall public benefits. In the case of the harbor grant program, certain water-based businesses, such as shipbuilders, have the opportunity to benefit from state assistance, while other manufacturing industries that may be similar in many respects, except that their business is unrelated to watercraft or waterborne commerce, may have less of an opportunity to benefit from state assistance because there may be no state programs with a specific focus on their particular industry. Clearly there is a high demand for harbor improvement program funding for harbor program improvements, including improvements that primarily benefit a single business, but the Legislature may need to consider whether providing funding increases to meet that demand is an effective and equitable use of state resources given that demand may be just as high for state assistance for other types of businesses for which there is no targeted program.

11. Since its creation, the harbor assistance program has been funded from the transportation fund. However, unlike many other programs financed from the transportation fund, the users of port facilities, such as shipping companies, do not pay a state user fee or tax that is deposited into the transportation fund. Nevertheless, it could be argued that the transportation fund is an appropriate funding source for the program since the state's harbors are an important part of an overall freight system that also benefits the trucking and railroad industries, which do pay user taxes and fees. However, as the program has shifted toward making more grants for non-freight, water-based industries, this connection may be weakened.

12. If it is determined that it is appropriate for the harbor improvement program to provide assistance to improvements that are not directly related to the state's freight transportation system, the Committee could decide it would be better to provide this assistance through the general fund, by converting the harbor assistance appropriations for program administration and grants and for harbor-related debt service from SEG to GPR. Total SEG savings (and increased GPR appropriations) would be \$3,792,100 in 2009-10 and \$5,398,100 in 2010-11 (a \$610,400 appropriation annually for grants and program administration plus \$3,181,700 in 2009-10 and \$4,787,700 in 2010-11 for estimated debt service on existing bonds and bonding proposed under the bill.) [Alternative #C1]

13. If the Committee is interested in shifting some of the program to GPR, but wants to reduce the immediate impact on the general fund, the alternative described in the previous point could be modified to specify that only debt service on new harbor assistance bonds and the program's administration and grants appropriation would be supported from the general fund, while debt service on existing bonds would continue to be paid from the transportation fund. Under this alternative, total SEG savings (and increased GPR appropriations) would be \$681,800 in 2009-10 and \$1,168,500 in 2010-11. [Alternative #C2]. Alternately, the current transportation fund appropriation for program administration and grants could be maintained, with only debt service on new bonds being supported from the general fund, which would result in SEG savings (and increased GPR appropriations) of \$71,400 in 2009-10 and \$558,100 in 2010-11. [Alternative #C3]

14. If the Committee determines that the program should be focused on the freight transportation system, the bill could be amended to direct the Department to give highest priority to projects that are directly related to freight transportation. Even with a freight focus, the Committee could determine that the program could be funded from the general fund in order to free transportation fund resources for other DOT programs. Consequently, this alternative could be adopted in addition to the general fund alternative described in the previous point. [Alternative #B1a]

15. The Department is in the process of developing a multi-modal transportation plan to establish transportation policy guidelines for the next 20 years. In its draft plan, which was published in November, 2008, the Department notes the benefits of the waterborne shipping industry, particularly as an energy-efficient means of transporting bulk commodities such as coal, iron ore, and grain. Given the competing demands for funds for improvement projects, the draft plan notes that a more detailed, multi-modal analysis of the state's freight system is needed. The funding provided in the bill, however, represents an increase in response to the demand for such funding, without the benefit of such a comprehensive analysis.

16. Since the demand for grants far exceeds available funding, even with the proposed increase, the Committee could determine that a more thorough review of the program's funding and objectives is warranted. To facilitate such a review, the bill could be amended to require the Department of Transportation to submit a report to the Committee, by July 1, 2010, that provides the following: (a) an assessment of current and future harbor improvement needs for the next ten years, for both freight and non-freight industries; and (b) a discussion of the appropriateness of the use of state funding for harbor improvement projects with a favorable benefit-cost ratio, but where the benefits accrue primarily to a single or small number of private businesses. [Alternative #B1b]

17. The harbor assistance program uses a benefit-cost analysis, in which the construction costs of a project are weighed against its benefits accruing from shipping efficiencies, reduced maintenance costs, and expanded or retained employment. While this analysis is used to rank projects for harbor assistance grants, it does not weigh the net benefits of the harbor improvement grants against the potential benefits of other possible uses of the funding. Therefore, it is possible that the same amount of funding provided for a grant in the harbor assistance program could yield higher benefits or more broadly-distributed benefits if spent on a particular highway, rail, or transit project. In light of the competing demands for transportation funding, the Committee could decide that the proposed increase in harbor improvement program bonds is not warranted. Instead of, or in

addition to other alternatives presented in this paper, the Committee could decide to reduce the bill's proposed bonding level. One alternative [Alternative #A2] would be to provide bonding authorization of \$12,700,000, which would be a reduction of \$6,350,000 relative to the bill, and would be the same amount requested by the Department for the 2009-11 biennium. Alternately, the bill could be amended to provide a bond authorization of \$6,000,000 [Alternative #A3], which would be a reduction of \$13,050,000 relative to the bill, but would double the amount of bonds provided in the two biennia prior to the expansion of the program in the 2005-07 biennium.

18. When fully issued, the debt service on the bonds provided by the bill would be about \$1.5 million annually. Due to the time elapsed between when projects are approved for funding and the time that bonds are actually issued, the full, annualized debt service on the proposed bonds would not be paid during the biennium. The Department of Administration's overall general obligation debt service estimates are based on the assumption that the new harbor improvement bonds would not be issued during the biennium or would be issued late enough that no debt service payments would be incurred during the biennium. [The bill reflects an increase in debt service on harbor bonds of \$351,600 in 2009-10 and \$874,700 in 2010-11 above 2008-09 debt service, but this increase is attributable to the issuance of existing, unused bonds.] However, in submitting its biennial budget request, DOT typically assumes that one-half of the bonds programmed in each year (equal to one-quarter to the biennial total) would be issued in the year for which grants are made and the remaining 50% would be issued in the following year. Under this assumption, debt service payments would be incurred on the new bonds during the 2009-11 biennium, and, therefore, the debt service estimate reflected in the bill may be too low. The bill could be amended to reflect the Department's bond issuance assumption, and DOA's assumed interest rates and bond issuance structure, which would result in a debt service increase, relative to the bill, of \$71,400 SEG in 2009-10 and \$558,100 SEG in 2010-11. If the Committee adopts one of the bond reduction alternatives described in the previous point, these amounts would be lower. At an authorized bonding level of \$12,700,000, additional debt service would be \$47,600 in 2009-10 and \$372,100 in 2010-11, while at an authorized bonding level of \$6,000,000, additional debt service would be \$22,500 in 2009-10 and \$175,800 in 2010-11.

ALTERNATIVES

A. Harbor Assistance Program Funding

1. Approve the Governor's recommendation to provide \$19,050,000 in general obligation bond authority for the harbor assistance program. Increase funding by \$71,400 SEG in 2009-10 and \$558,100 SEG in 2010-11 to reflect a reestimate of debt service on these bonds.

ALT A1	Change to Bill
	Funding
SEG	\$629,500

2. Modify the Governor's recommendation by providing \$12,700,000 in general obligation bond authority for the harbor assistance program, a reduction of \$6,350,000 from the amount provided in the bill. Increase funding by \$47,600 SEG in 2009-10 and \$372,100 SEG in 2010-11 to reflect estimated debt service on these bonds.

ALT A2	Change to Bill Funding
BR	- \$6,350,000
SEG	<u>419,700</u>
Total	- \$5,930,300

3. Modify the Governor's recommendation by providing \$6,000,000 in general obligation bond authority for the harbor assistance program, a reduction of \$13,050,000 from the amount provided in the bill. Increase funding by \$22,500 SEG in 2009-10 and \$175,800 SEG in 2010-11 to reflect estimated debt service on these bonds.

ALT A3	Change to Bill Funding
BR	- \$13,050,000
SEG	<u>198,300</u>
Total	- \$12,851,700

4. Delete provision.

ALT A4	Change to Bill Funding
BR	- \$19,050,000

B. Other Harbor Program Changes

1. Adopt one or both of the following harbor program changes:

a. Modify the Governor's recommendation to specify that in awarding harbor assistance program grants, the Department must give highest priority to projects that are directly related to freight transportation.

b. Modify the Governor's recommendation to require the Department to submit a report to the Joint Committee on Finance by July 1, 2010, that provides the following: (a) an assessment of current and future harbor improvement needs for the next ten years, for both freight and non-freight industries; and (b) a discussion of the appropriateness of the use of state funding for harbor improvement projects with a favorable benefit-cost ratio, but where the benefits accrue primarily to a single or small number of private businesses.

2. Maintain current law.

C. Harbor Program Funding Source

The amounts shown in the alternatives under this section are based on the Governor's recommended funding level, including the debt service reestimate on the proposed bonds. If the Committee adopts alternatives #A2, #A3, or #A4, the amounts would have to be adjusted to reflect the different debt service estimates.

1. Modify the bill to convert the funding source for the harbor assistance program from the transportation fund to the general fund. Delete \$3,792,100 SEG in 2009-10 and \$5,398,100 SEG in 2010-11 and provide an equal amount of GPR to reflect this change.

ALT C1	Change to Bill Funding
SEG	- \$9,190,200
GPR	<u>9,190,200</u>
Total	\$0

2. Modify the bill to convert the funding source for the SEG appropriation for the harbor assistance program administration and grants to a GPR appropriation and create a GPR appropriation for debt service on bonds authorized in the 2009-11 biennium and beyond. Delete \$681,800 SEG in 2009-10 and \$1,168,500 SEG in 2010-11 and provide an equal amount of GPR to reflect this change.

ALT C2	Change to Bill Funding
SEG	- \$1,850,300
GPR	<u>1,850,300</u>
Total	\$0

3. Modify the bill to create a GPR appropriation for debt service on bonds authorized in the 2009-11 biennium and beyond. Delete \$71,400 SEG in 2009-10 and \$558,100 SEG in 2010-11 and provide an equal amount of GPR to reflect this change.

ALT C3	Change to Bill Funding
SEG	- \$629,500
GPR	<u>629,500</u>
Total	\$0

4. Maintain current law.

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