Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: http://legis.wisconsin.gov/lfb

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Transportation Facilities Economic Assistance and Development Program (Transportation -- Local Transportation Assistance)

[LFB 2015-17 Budget Summary: Page 443, #6]

CURRENT LAW

The transportation facilities economic assistance program (TEA) provides grants to local governments for making infrastructure improvements designed to retain or attract businesses in the state by facilitating access to an economic development project. The transportation improvements may involve the construction or reconstruction of a highway or road, an airport runway, taxiway, or apron, a harbor facility, or a railroad track or spur. The Department of Transportation (DOT) is required to accept applications for projects throughout the year and make a determination on an application within a reasonable amount of time after receiving it. Generally, the state grant may cover the lesser of 50% of the anticipated project cost or $5,000 for each job in this state resulting directly from the improvement or economic development project. Base funding for the program is $3,402,600 SEG annually from a continuing appropriation.

GOVERNOR

Provide $2,000,000 SEG annually for the transportation facilities economic assistance and development program. Specify that the state's maximum cost share percentage on a TEA program grant would be increased from 50% to 80%, with a corresponding reduction to the minimum local share from 50% to 20%. Modify the process used to establish a maximum grant ceiling and the Department's authority to reduce this ceiling to reflect the increased allowable state share for a project. As modified, the maximum grant ceiling would equal the lesser of 80% of the cost of an improvement or $5,000 per job, but DOT could reduce this ceiling if 80% of the improvement cost would result in a grant exceeding $1,000,000. Annual grant funding would increase from $3,402,600 SEG to $5,402,600 SEG.

DISCUSSION POINTS

1. The TEA program was created under 1987 Act 27. Typically, an eligible economic development project involves a business or businesses locating or expanding operations within the local sponsor's jurisdiction. TEA program applicants must be sponsored by a local government and grants may be provided to governing bodies, private businesses, and consortiums for road, rail, harbor and airport projects. According to the Department, projects funded from the program have created more than 84,000 direct and indirect jobs as a result of the program's grants.

2. The Governor's recommended funding increase of $2.0 million annually and modification of the state's cost sharing percentage (from 50% to 80%) were included in the Department's 2015-17 budget request. The proposed level of funding would represent a 58.8% increase over the base year amount. It is estimated that the state's share of costs for potential 2015-17 projects would be $7.1 million under the current 50% cost share and $11.4 million under the proposed 80% cost share. DOT estimates that the additional funding of $2.0 million annually would fund the increase to the state cost share percentage and the greater demand anticipated for the program due to this change.

3. According to DOT, local project sponsors have indicated that the largest barrier to completing TEA grant applications is the requirement for a minimum local cost share of 50%. For example, 10 of 15 potential 2015-17 grant applicants, who have indicated interest in the program, have also stated that they will apply to the program only if the state's cost share percentage is increased to 80%. However, in the two most recent TEA program award cycles, a total of 18 grants were awarded (11 in 2013 and seven in 2014). With the exception of one application, which was withdrawn from consideration, all program applicants received funding.

4. The TEA program is funded from a continuing appropriation, which means any unencumbered balance can be carried over into the next fiscal year. In 2013-14, the unencumbered balance of the TEA appropriation was $7.2 million and it is estimated that the unencumbered balance at the end of 2014-15 will be $8.0 million. However, during the remainder of 2014-15, the Department anticipates awarding six grants totaling $4.1 million. Therefore, if no additional project sponsors apply, it is estimated that the TEA program's continuing appropriation will have $3.9 million in unencumbered funds available in the 2015-17 biennium. Some or all of this funding could be used in lieu of the proposed funding increase to meet any potential increase in program demand.

5. Table 1 provides a summary of the TEA program funding that could be available in the 2015-17 biennium. The available funding includes the estimated $3.9 million in unencumbered funding from 2014-15, base funding, and the Governor's recommended funding increase. The table also indicates the potential program demand based on information provided by DOT using the recommended cost sharing percentage. Finally, the table outlines two separate funding alternatives: (a) the Governor's recommendation [Alternatives #A1 and #B1]; and (b) an alternative that would use the estimated unencumbered program funding from 2014-15 to fund most of the anticipated increase in program demand and provide only $700,000 in new funding in the 2015-17 biennium. As indicated in the table, the funding available in the biennium under the Governor's recommendation would exceed estimated demand by $3.3 million. Under the alternative outlined in the table only the additional funding needed to meet estimated demand from the 15 potential

applicants that have been identified by the Department would be provided. Under this alternative, only $700,000 ($350,000 annually) would be provided in 2015-17. [Alternative #A2 and #B1]

2015-17 TEA Program Funding
(In Millions)

Funding	Governor	Alternative
2014-15 Estimated Unencumbered Balance	$3.9	$3.9
Base Year Funding Doubled	6.8	6.8
Potential Funding Increase	4.0*	0.7
Total Funding Available	$14.7	$11.4
Projected Program Demand		
TEA Grants (80% Share of Costs)	-$11.4	-$11.4
Unencumbered Balance (end of 2016-17)	$3.3	$0.0

*Governor's recommendation

6. Although the program has not fully awarded all the funds appropriated in the past two years, DOT believes that the TEA program assists in creating economic development projects that benefit Wisconsin through job creation and retention. However, given past program demand and available carryover funding, the program's base funding, even with the increased cost sharing percentage, could prove to be adequate. Therefore, the Committee could increase the state cost sharing percentage to 80% to try to attract additional applications from local sponsors while providing no additional funding. Under this alternative, $10.7 million ($3.4 million annually in base funding and $3.9 million in carryover funding) would be available in the biennium for grants at the higher cost share percentage. This would allow the Department a two-year period to see if program demand increases as a result of the higher state cost share percentage without appropriating additional funds at this time. [Alternatives #A4 and #B1]

7. Due to concerns about the transportation fund's ongoing revenue issues and the extensive use of long-term borrowing for the highway program included in the bill, revenue increases or program reductions, or a combination of both, may have to be made. Any significant reductions in bonding would require significant reductions to the highway-related programs, for which the Governor is recommending nearly $1.3 billion in bonding. If the Committee believes that significant reductions need to be made to the highway programs, it could be argued that TEA program funding should also be decreased.

8. In addition, while the ability of some local governments to carry out significant local economic development projects may be limited, tax increment financing does provide cities and villages with the ability to fund local economic development projects that include transportation infrastructure improvements. It could also be argued that the use of state funds for this purpose may divert such funds from transportation projects that provide a broader economic benefit to the state (such as state trunk or interstate highway projects).

9. Therefore, given that an estimated $3.9 million in unencumbered funds will be available in 2015-17, the Committee could decide to reduce the program's funding by $1.95 million annually to reflect the availability of this funding. [Alternative #A3] This would essentially make the same level of funding available that was provided last biennium ($3.4 million annually), although base funding for the program in the 2017-19 biennium would be reduced to $1,452,600 annually. If the Committee also chose to increase the state's costs sharing percentage as recommended by the Governor, it could create a more competitive application process, as the state cost share would be significantly increased, but no additional funds would be provided. [Alternative #B1] Conversely, the Committee could retain the existing cost share percentage with this funding level and those project sponsors with the incentive to provide more funding toward the projects would receive grants.

10. The local roads improvement program (LRIP) provides grants of state funds on a biennial basis for capital improvements on existing county, town, and municipal (city or village) roads and for feasibility studies for such improvements. Although LRIP is focused on improving local roads only, whereas the TEA program's goal is to assist economic development through the funding of transportation infrastructure, both programs have the same 50% state cost sharing percentage. Because demand for LRIP funds has been relatively strong, the Committee could decide that keeping the same 50% cost share percentage for the TEA program is appropriate. [Alternative #B2]

ALTERNATIVES

A. Funding Level

1. Approve the Governor's proposal to provide $2,000,000 SEG annually for the TEA program (total funding of $5,402,600 SEG annually would be provided).

2. Modify the Governor's recommendation and provide only $350,000 SEG annually for the TEA program (with estimated, existing funding, this would fully fund anticipated program demand at the 80% maximum cost sharing percentage).

ALT A2	Change to Bill
SEG	- $3,300,000

3. Delete the provision. In addition, reduce base level funding for the TEA program by $1,950,000 SEG annually to reflect the $3.9 million carryover balance available in the 2015-17 biennium (no new funding would be provided and with estimated, existing funding, the total funding available would equal the funding level provided in the 2013-15 biennium). Base level funding would be reduced to $1,452,600 SEG annually for the 2017-19 biennium.

ALT A3	Change to Bill
SEG	- $7,900,000

4. Delete provision (base level funding of $3,402,600 SEG annually would be provided).

ALT A4	**Change to Bill**
SEG	- $4,000,000

B. Cost Sharing

1. Approve the Governor's recommendation to increase the state's maximum cost share percentage on a TEA program grant from 50% to 80%, with a corresponding reduction to the minimum local share from 50% to 20%. Modify the process used to establish a maximum grant ceiling and the Department's authority to reduce this ceiling to reflect the increased allowable state share for a project.

2. Delete provision (the 50% state cost share would remain).

Prepared by: John Wilson-Tepeli