



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #652

State Highway Rehabilitation Program (Transportation -- State Highway Program)

[LFB 2015-17 Budget Summary: Page 447, #5]

CURRENT LAW

The state highway rehabilitation program is responsible for the reconstruction, reconditioning, and resurfacing of the highways and bridges of the state highway system, except for highway projects that exceed the capacity expansion thresholds established for the major highway development, southeast Wisconsin freeway megaprojects, high-cost bridge, and major interstate bridge programs. The 2013-15 budget for the state highway rehabilitation program includes \$845.0 million in state funds and \$795.4 million in federal funds.

GOVERNOR

Reduce funding by \$120,300,100 SEG in 2015-16 and \$125,441,300 SEG in 2016-17 in the appropriation for state highway rehabilitation. Authorize \$242,386,600 in transportation fund-supported, general obligation bonds for the state highway rehabilitation program. Request an increase in funding of \$6,288,000 SEG in 2016-17 to reflect estimated debt service on these bonds (as reestimated in LFB Paper 630).

DISCUSSION POINTS

1. Several of the alternatives presented in this paper would rely on the use of bonds for the state highway rehabilitation program. The Committee could decide to vary the mix of funds used in any of these alternatives and may also elect to provide increases or reductions to the other state highway program components based on these decisions.

2. The Department of Transportation's (DOT) central office, in consultation with the five administrative regions, creates and follows a comprehensive, six-year program (or schedule) for

state highway rehabilitation. The six-year program is updated periodically based on changes in funding and in the plans for individual projects. The general, regional effects of the alternatives discussed in the paper on the number highway miles improved under the six-year plan are summarized in the attachment.

3. Table 1 shows the total resources provided to the state highway rehabilitation program since the start of the 2005-07 biennium (including FED, SEG, and bonds).

TABLE 1
State Highway Rehabilitation Funding -- Total Program Resources
(In Millions)

<u>Biennium</u>	<u>All Funds</u>
2005-07	\$1,202.8
2007-09	1,560.8
2009-11	1,545.8
2011-13	1,607.6
2013-15	1,640.4
2015-17*	1,614.7

*Reflects the Governor's 2015-17 budget recommendation.

4. The alternatives discussed in this paper would provide total levels of funding for the state highway rehabilitation program as follows: (a) Alternative #1 would provide base level funding of \$807.3 million annually, as described under the Governor's budget recommendations; (b) Alternative #2 would reduce the program's bonding authorization under the bill by \$200 million, which would result in funding of \$707.3 million annually; (c) Alternative #3 would increase funding for the program to the level requested by the Department in its budget request, providing \$856.1 million in 2015-16 and \$985.0 million in 2016-17; and (d) Alternative #4 would provide the same level of funding as Alternative #1, but without any bonding.

5. Table 2 below shows the total 2015-17 funding for the program under the bill, including standard budget adjustments (\$1,527,400 SEG annually) and a separate item for the construction manager/general contractor pilot program (\$225,000 SEG in 2015-16 and \$75,000 SEG in 2016-17), relative to the 2014-15 appropriation base. The pilot program is addressed in a separate LFB paper.

TABLE 2

**Funding for the State Highway Rehabilitation Program
(Under AB 21/SB 21, Governor's Recommendation)**

<u>Fund</u>	<u>2014-15 Base</u>	<u>Governor</u>	
		<u>2015-16</u>	<u>2016-17</u>
SEG	\$388,216,700	\$269,669,000	\$264,377,800
FED	419,132,200	419,132,200	419,132,200
SEG-Supported General Obligation Bonds	<u>0</u>	<u>118,547,700</u>	<u>123,838,900</u>
Total	\$807,348,900	\$807,348,900	\$807,348,900

6. It is estimated that this level of funding would allow the Department to improve a total of 3,659 miles of highway, distributed by region as reflected in the attachment. At this level of funding, DOT estimates that statewide road conditions, currently reported as 83% in "fair and above condition," would be reduced to 68% in this condition over a 10-year period (remaining roads would be considered in "poor and below" condition).

7. The Department of Administration's general obligation bond debt service estimates assume that \$111.5 million of the \$242.4 million in newly-authorized bonds would be issued during the biennium. The estimated debt service in the biennium on that bonding under Alternative #1 would be \$6.3 million in 2016-17 (as reestimated in LFB Paper 630). Due to the time that exists between when projects are approved for funding and when the bonds are actually issued, the full, annualized debt service on the proposed bonds would not be paid during the biennium. When fully issued, the annualized debt service to be paid from the transportation fund associated with the \$242.4 million recommended increase in bonding would be an estimated \$17.4 million.

8. 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 large reductions in bonding would require significant reductions to the highway-related programs, for which the Governor is recommending nearly \$1.3 billion in bonding.

9. Given these factors, and if the Committee decides that highway program reductions should be made, some have argued that the state should ensure the continuation of individual projects with relatively more significant implications for the economic condition of the state. As a part of a budgeting exercise for members of the Committee, the DOT Secretary was asked how, if given the choice, the Department would distribute a \$500 million reduction to the state highway program in 2015-17 from the level of funding provided under the Governor's budget recommendations. In this instance, the Secretary indicated that the Department would plan to fund the Zoo Interchange project (a southeast Wisconsin freeway megaproject) at the level provided in the Governor's budget recommendation (\$623.2 million in 2015-17). This project is on the busiest segment of interstate highway in the state and is a hub for freight, businesses, and hospitals (as well

as those commuting to and from the City of Milwaukee). This level of funding would allow the project to remain on schedule for completion by the end of 2018. If such a cut were made to the highway program, DOT would prefer to reduce funding by \$150 million annually to the major highway development program and by \$100 million annually to the state highway rehabilitation program. This would cut both programs by \$100 million annually compared to the base year.

10. Although bonds have been used for state highway rehabilitation in several prior biennia, some have argued that the use of bonds, which are a long-term project financing option, may not align well with the shorter, expected usable life of rehabilitated highway facilities. Compared to newly constructed highway facilities, for which bonds are often used, rehabilitations of original facilities tend to last for shorter periods of time. For instance, DOT often refers to the following guidelines: (a) typically, a newly constructed pavement surface has a life of about 25 years before a first rehabilitation is required; and (b) although an initial rehabilitation generally adds about 15 years to the life of the original facility, each successive rehabilitation usually deteriorates more rapidly than the one that preceded it, such that fourth and subsequent rehabilitations typically last about five years. Because of this shorter expected facility life, the use of bonds to finance rehabilitation projects may result in ongoing debt service payments that continue after the usable life of the rehabilitation.

11. If the Committee were to make a \$100 million annual program reduction to this program, as discussed under a possible \$500 million reduction scenario, it could opt to reduce the bonding authorization provided under the bill by this amount. This alternative would provide the program with \$707.3 million annually. [Alternative #2] Estimated debt service, relative to the reestimated amount under the bill, would be \$4.8 million less in the biennium, and equal to \$1.8 million SEG in 2016-17, increasing to \$3.0 million annually once the bonds are fully issued.

12. Table 3 below shows the total 2015-17 funding for the program under the bill, less \$100 million annually in transportation fund-supported, general obligation bonding authority. The amounts shown represent an annual decrease in program funding of 12.4% relative to the base year.

TABLE 3
Funding for the State Highway Rehabilitation Program
(\$100 Million Annual Reduction)

<u>Fund</u>	<u>2014-15 Base</u>	<u>Alternative #2</u>	
		<u>2015-16</u>	<u>2016-17</u>
SEG	\$388,216,700	\$269,669,000	\$264,377,800
FED	419,132,200	419,132,200	419,132,200
SEG-Supported General Obligation Bonds	<u>0</u>	<u>18,547,700</u>	<u>23,838,900</u>
Total	\$807,348,900	\$707,348,900	\$707,348,900

13. Compared to the program's base level of funding and the 3,659 miles of highway

that would be improved under Alternative #1, this reduction would allow the Department to improve 444 fewer miles of highway (for a total of 3,215 miles improved), distributed by region as reflected in the attachment. DOT indicates that statewide road conditions, currently reported as 83% in fair and above condition, would decrease to 64% in this condition over a 10-year period at this level of funding.

14. Some have argued that even in a budget environment with limited resources that there should be an increased focus on funding the rehabilitation of existing highway facilities. In support of this position, it is often asserted that by rehabilitating roadways at the appropriate time that the functional life of highway facilities can be maximized. Providing additional funds for such rehabilitations, while making other highway program reductions, would likely reduce the short-term level of additional capacity that would be added to the state's highway system through the major highway development and southeast Wisconsin freeway megaproject programs. Although there is some risk that delaying capacity expansion projects could result in increased congestion and additional costs due to potentially higher construction prices in the future, supporters of this position have argued that capacity expansion projects increase the total number of lane miles that the state must pay to maintain and rehabilitate in the future.

15. The Committee could decide to increase funding by \$48.8 million SEG in 2015-16 and \$177.6 million SEG in 2016-17 to provide the level of funding requested by the Department in its budget request (\$856.1 million in 2015-16 and \$985.0 million in 2016-17). [Alternative #3] However, this alternative would require the Committee to do one or both of the following: (a) make SEG reductions in other areas of the state highway program; or (b) adopt provisions that would provide additional transportation fund revenues. Estimated debt service under this alternative would be the same as the amount in the bill (\$6.3 million SEG paid in 2016-17 and \$17.4 million SEG annually once the bonds are fully issued).

16. Table 4 shows the total 2015-17 funding for the program under Alternative #3. The amounts shown represent an increase of 6.0% in 2015-16 followed by an increase of 15.1% in 2016-17.

TABLE 4

**Funding for the State Highway Rehabilitation Program
(Total Equals DOT Budget Request)**

<u>Fund</u>	<u>2014-15 Base</u>	<u>Alternative #3</u>	
		<u>2015-16</u>	<u>2016-17</u>
SEG	\$388,216,700	\$318,421,400	\$441,980,200
FED	419,132,200	419,132,200	419,132,200
SEG-Supported General Obligation Bonds	<u>0</u>	<u>118,547,700</u>	<u>123,838,900</u>
Total	\$807,348,900	\$856,101,300	\$984,951,300

17. Compared to base funding, this level of resources would allow the Department to improve 802 additional miles of highway (for a total of 4,461 miles improved), distributed by region as reflected in the attachment. The Department estimates that statewide road conditions, currently reported as 83% in fair and above condition, would decrease to 75% in this condition over a 10-year period at this level of funding (as compared to 68% for Alternative #1 and 64% for Alternative #2).

18. Due in part to concerns over growing transportation debt service, and the overall stability of the state's method of financing transportation programs, the 2011-13 budget created the Transportation Finance and Study Commission to examine these issues and make recommendations. The Commission recommended a series of funding increases for state highway and local transportation assistance programs and several tax and fee increases to generate additional revenues for the transportation fund. Among these recommendations was a funding level equal to \$1 billion annually for the state highway rehabilitation program. Ongoing, base year funding under Alternative #3 would be about \$15 million less than the annual amount recommended by the Commission.

ALTERNATIVES

1. Approve the Governor's recommendations to do the following: (a) authorize \$242,386,600 in transportation fund-supported, general obligation bonds for the state highway rehabilitation program; (b) provide \$6,288,000 SEG in 2016-17 to reflect estimated debt service on these bonds (when fully issued, the estimated, annual debt service payment for these bonds would equal \$17.4 million SEG); and (c) reduce funding by \$120,300,100 SEG in 2015-16 and \$125,441,300 SEG in 2016-17. Total program funding would be equal to \$807,348,900 annually.

2. Modify the Governor's recommendation and delete \$200,000,000 in transportation fund-supported, general obligation bonds for the state highway rehabilitation program and decrease funding by \$4,518,200 SEG in 2016-17 to reflect the lower, estimated debt service payment on the remaining bonds (\$1,769,800 in 2016-17, increasing to \$3.0 million annually once fully issued). This alternative would provide total funding of \$707,348,900 annually.

ALT 2	Change to Bill
BR	- \$200,000,000
SEG	<u>- 4,518,200</u>
Total	- \$204,518,200

3. Modify the Governor's recommendation and increase state highway rehabilitation funding by \$48,752,400 in 2015-16 and \$177,602,400 in 2016-17. This would provide total funding equal to \$856,101,300 in 2015-16 and \$984,951,300 in 2016-17, which is the level of funding DOT requested in its budget request for 2015-17 (the bond authorization and estimated debt service amounts under the bill would remain unchanged).

ALT 3	Change to Bill
SEG	\$226,354,800

4. Delete the Governors' recommendation to replace SEG funds with \$242,386,600 in transportation fund-supported bonding. Increase the SEG appropriation for the state highway rehabilitation program by \$118,547,700 in 2015-16 and \$123,838,900 in 2016-17 and decrease the SEG debt service appropriation by \$6,288,000 in 2016-17 to reflect this change. This would provide base level program funding equal to \$807,348,900 annually, with no bonding.

ALT 4	Change to Bill
BR	- \$242,386,600
SEG	<u>236,098,600</u>
Total	- \$6,288,000

Prepared by: John Wilson-Tepeli
Attachment

ATTACHMENT

State Highway Rehabilitation Program Funding: Highway Miles Improved Over Six Years Under Alternative Funding Levels for 2015-17 Through 2019-21

<u>Region*</u>	<u>Alternative #1 or #4</u>	<u>Alternative #2</u>	<u>Alternative #3</u>
North Central	577	474	708
Northeast	574	513	668
Northwest	1,007	885	1,337
Southeast	546	448	645
Southwest	<u>955</u>	<u>895</u>	<u>1,103</u>
Total	3,659	3,215	4,461
Biennial Funding	\$1,614,697,800	\$1,414,697,800	\$1,841,052,600

*The five regions and the counties in each region are: (a) the North Central Region (which includes Adams, Florence, Forest, Green Lake, Iron, Langlade, Lincoln, Marathon, Marquette, Menominee, Oneida, Portage, Price, Shawano, Vilas, Waupaca, Waushara, and Wood counties); (b) the Northeast Region (which includes Brown, Calumet, Door, Fond du Lac, Kewaunee, Manitowoc, Marinette, Oconto, Outagamie, Sheboygan, and Winnebago counties); (c) the Northwest Region (which includes Ashland, Barron, Bayfield, Buffalo, Burnett, Chippewa, Clark, Douglas, Dunn, Eau Claire, Jackson, Pepin, Pierce, Polk, Rusk, St. Croix, Sawyer, Taylor, Trempealeau, and Washburn counties); (d) the Southeast Region (which includes Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington, and Waukesha counties); and (e) the Southwest Region (which includes Columbia, Crawford, Dane, Dodge, Grant, Green, Iowa, Jefferson, Juneau, La Crosse, Lafayette, Monroe, Richland, Rock, Sauk, and Vernon counties).