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Marquette Interchange Reconstruction

Marquette Interchange Reconstruction (DOT -- State Highway Program)

[LFB 2001-03 Budget Summary: Page 661, #1 (part)]

CURRENT LAW

The reconstruction and repair of state highways and bridges are funded through both state and federal appropriations for the state highway rehabilitation program. Base funding for the program is $565,948,900 ($250,266,800 SEG and $315,682,100 FED).

The Marquette Interchange is the conjunction of interstates 94, 43 and 794, adjacent to Marquette University and downtown Milwaukee

GOVERNOR

Provide $1,750,000 SEG, $26,868,000 FED and $2,264,300 SEG-S (revenue bond proceeds) in 2001-02 and $6,250,000 SEG, $91,067,200 FED and $4,732,300 SEG-S in 2002-03 to begin preliminary work related to the reconstruction of the Marquette Interchange in Milwaukee, including preliminary engineering, final design, real estate acquisition and traffic mitigation.

Create four, continuing appropriations for Marquette Interchange reconstruction to account for SEG funds, federal funds, revenue bond proceeds and local funds provided for the project. Specify that revenue bond proceeds may be used for the Marquette Interchange reconstruction project. Permit the Building Commission to issue revenue bonds for the reconstruction of the Marquette Interchange, but specify that not more than $6,996,600 (the amount appropriated by the bill) may be issued for this purpose. Create a revenue bond appropriation for the administrative costs of bond issuance and modify an existing clearing account appropriation to reflect the change allowing the use of bonds for the reconstruction project. Clarify that the funding of the Marquette Interchange reconstruction project shall be subject to current law restrictions on the purchase of land, easements or development rights in land that is more than one-quarter of a mile from a highway project.

DISCUSSION POINTS

1. The Marquette Interchange was initially constructed between 1964 and 1968. The bridges and pavements in the interchange have been repaired periodically since that time, but DOT indicates that the bridges in the interchange now need to be replaced due to their deteriorated condition. Consequently, the Department has tentatively scheduled the reconstruction of the interchange for the four-year period between 2004 and 2007 and is currently studying various alternative designs for its replacement. A decision on a final recommended alternative is expected to be made in the fall of 2001.

2. The area being studied extends, in the east-west direction, from the 35th Street interchange on I-94 to the Lake Interchange on I-794, a distance of about three miles. In the north-south direction, the area under study extends from the North Avenue interchange on I-43 to the Burnham Canal, a distance of about 2.5 miles. For the purposes of describing the construction in this area, DOT has divided the project into four segments: (a) the core, extending to the Burnham Canal to the south, 25th Street to the west, the Milwaukee River to the east and State Street to the north; (b) the north leg, extending from State Street to North Avenue; (c) the east leg, extending from the Milwaukee River to the Lake Interchange; and (d) the west leg, extending from 25th Street to 35th Street. Only the core of the interchange and the north leg would be reconstructed during the period between 2004 and 2007.

3. DOT has estimated the cost of reconstructing the interchange using the assumption that the freeways would be improved to current engineering standards, which includes eliminating left-hand ramps and increasing the clearance on all the bridges. With these assumptions, DOT tentatively estimates that reconstructing the interchange core will cost $549 million and reconstructing the north leg will cost $121 million, for a total of $670 million, in 2001 dollars. In addition, DOT has estimated the cost of adding interchanges at three locations that were not included in the "base" interchange improvement estimate. Adding interchanges at 13th Street ($5 million), Walnut Street ($44 million) and Plankinton Avenue ($47 million) would increase the total core and north leg cost to $766 million. The east and west legs, which would be reconstructed separately after the core and north legs are completed, are estimated to cost $183 million and $120 million, respectively. In total, DOT has identified potential costs for the core and the three legs of $1,069 million, in 2001 dollars. It should be noted that all of these estimates are based on average costs for similar types of freeway work. Since the Department is still in the preliminary stage of the design process, it is possible that refinements to the design and unforeseen circumstances will ultimately increase the cost of the project above these levels.

4. Of the $117,935,200 FED provided by the bill for the interchange reconstruction project over the biennium, $75,200,000 ($12,750,000 in 2001-02 and $62,450,000 in 2002-03)

would be interstate cost estimate (ICE) funds. A 1999 agreement between Governor Thompson and the City and County of Milwaukee allocated $75.15 million, out of a total of $241 million in ICE funds available to the state, to the Marquette Interchange reconstruction project. The bill would provide $75.20 million in ICE funds in the federal appropriation for Marquette Interchange reconstruction, which is $50,000 more than was allocated to the project under the agreement. A correction would be necessary to reflect the actual amount of available ICE funds.

5. The following table shows the funds provided by the bill for the project, by funding source, with a correction to reflect the actual amount of ICE funds available for the project.

Marquette Interchange Funding in the Bill

Funding Source	2001-02	2002-03	Biennial Total
SEG	$1,750,000	$6,250,000	$8,000,000
FED-Formula	14,118,000	28,617,200	42,735,200
FED-ICE	12,750,000	62,400,000	75,150,000
SEG-S (revenue bonds)	2,264,300	4,732,300	6,996,600
Total	$30,882,300	$101,999,500	$132,881,800

6. DOT indicates that the funding provided by the bill would be used for activities needed to prepare for construction on the interchange. This includes the preparation of the final designs for the project, purchasing real estate, relocating utility facilities, traffic mitigation (including the construction of temporary roads and a grant of $5.0 million for improvements on West Canal Street) and the widening of the Wisconsin Avenue bridge (over I-43) and the Highrise Bridge (I-94 over the Menomonee River valley).

7. If the funding provided in the bill is approved, the remaining estimated cost of the project during the period between 2003-04 and 2006-07, including the cost of providing interchanges at 13th Street, Walnut Street and Plankinton Avenue and some preliminary work related to the construction of the east and west legs, would be $663 million, in 2001 dollars. Since this estimate may not account for all of the contingencies that could be encountered in the construction of a large highway project, it may be prudent to assume that the cost will be somewhat higher than this. In order to account for this possibility, the remainder of this analysis assumes that the actual cost of the project will be 15% higher than DOT's preliminary estimate. The following table shows how much additional funding would be required between 2004 and 2007, using a 15% higher real cost and the following assumptions: (a) the annual inflation rate between 2001 through 2007 will be 3%; (b) the federal formula highway aid, SEG funds and bonding funds that would be provided under the bill in 2002-03 (equaling $39.6 million) will be maintained as part of the ongoing base through 2006-07; and (c) construction costs will be spread evenly over the four years between 2003-04 and 2006-07, but the costs of preliminary work (including some work associated with the east and west legs) will be incurred in the years that they are currently anticipated.

Estimated Annual Funding Requirements for the
Marquette Interchange Reconstruction
(In Millions)

	2003-04	2004-05	2005-06	2006-07
Estimated Annual Project Cost	$232.0	$196.1	$212.6	$227.3
-Ongoing Base Funding	-39.6	-39.6	-39.6	-39.6
Net Funding Requirement	$192.4	$156.5	$173.0	$187.7

8. If the Legislature decides to fund the Marquette Interchange project with cash, except for the amount of bonding provided in the bill ($25.9 million, if additional authorization is provided to maintain the base level until the completion of the project in 2006-07), additional funding could be provided by dedicating revenue from "natural" transportation fund revenue growth, transferring base funding from the highway rehabilitation, major highway development or other transportation programs, increasing transportation taxes and fees or adopting some combination of these alternatives. For instance, the following combination of actions would generate approximately $177 million per year for the project, which would be enough to fund the estimated costs as identified in the previous scenario: (a) dedicating $7 million from natural revenue growth; (b) dedicating 5% of the 2002-03 SEG and FED base for the major highway development and state highway rehabilitation programs to the Marquette Interchange project (about $35 million); (c) increasing the motor fuel tax by two cents per gallon (about $64 million); (d) increasing vehicle registration fees by 10%, which equates to $4.50 for automobiles (about $35 million); and (e) increasing the vehicle title fee by $20 (about $36 million).

9. This office has estimated that the amount of federal highway formula aid that will be received in both 2002 and 2003 is $567,000,000 (see LFB Paper #896). This exceeds the amounts estimated in the bill by $21,443,100 in 2001-02 and $6,319,000 in 2002-03. These amounts could be provided for the Marquette Interchange project without affecting the funding for other transportation programs, which would reduce the amount of additional funding that would be required to complete the project, relative to the previous scenario. However, $163 million per year in additional tax and fee increases or diversions from other transportation programs would still be required to complete the project under this scenario.

10. The amount of tax and fee increases or diversions from other transportation programs could be reduced by funding a portion of the cost of the project with bond proceeds, which would spread the cost of the project over a longer period of time. The Committee could adopt a funding strategy for the Marquette Interchange project of establishing a base funding level in 2002-03 that would be used in future biennia to make annual debt service payments associated with the bonding that is used on the project. Under this strategy, most of the base funding level would be used directly for project expenditures in 2003-04, with the balance of project costs being

funded with bonds. In subsequent years, the amount of the base funding level used directly for the project would be reduced by an amount necessary to pay the debt service on the bonds issued for the project.

11. Toward the goal of establishing a higher, non-bonding base funding level for the project, the Committee could exchange the revenue bonds provided in the bill for the Marquette Interchange project ($2,264,300 in 2001-02 and $4,732,300 in 2002-03) with SEG funds from the major highway development program, keeping both programs funded at the same total level. DOA indicates that the bonding amounts provided for the Marquette Interchange were derived by reducing the percentage of bonding used in the major highway development program from 55%, which has traditionally been a target level of bonding for the program, to 54% in 2001-02 and 53% in 2002-03, and providing this difference for the Marquette Interchange. Exchanging the bonding provided for the Marquette Interchange appropriations for SEG in the major highway development program would increase the percentage of bonding used in the major highway development program, but would not change the total amount of bonding in the highway program and, therefore, would not affect the total amount of revenue bond debt service, relative to the bill (there would be a potential increase in revenue bond debt service in future biennia, depending on actions of future Legislatures).

12. Providing additional SEG instead of SEG-S for the Marquette Interchange and providing the additional federal funds that it is now estimated that the state will receive would establish an ongoing, non-bonding base funding level of $45.9 million in 2002-03, instead of $34.9 million under the bill, and would increase the total amount of funding providing in the 2001-03 biennium from $132.9 million to $160.6 million.

13. The following table shows a funding scenario for the project using the following assumptions: (a) a FED and SEG base of $45.9 million will be provided in 2002-03 and will be maintained as part of the ongoing base for the project, but the amount that will be used directly for project expenditures will be reduced each year by the amount necessary to pay debt service on bonds issued for the project; (b) transportation fund-supported, general obligation bonds will be issued to cover the remaining costs of the project (instead of revenue bonds, as under the bill) and the annual interest rate on these bonds will be 5.0%; (c) one semi-annual payment will occur in the fiscal year that the bonds are issued; and (d) $18.7 million of the $27.7 million provided in federal formula funds in 2001-03 will replace federal ICE funds in the 2001-03 biennium and this amount will be used to reduce the total amount of additional funding needed for the project in 2003-04 (the remaining $9.0 million would be used on other preliminary activities that have been identified by the Department, but that are not funded by the bill).

Marquette Interchange Construction Funding Scenario
(In Millions)

	2003-04	2004-05	2005-06	2006-07	2007-08
Bonds Issued	$165.0	$170.1	$201.4	$233.4	--
Carry-Over ICE Funds	18.7	--	--	--	--
Ongoing SEG and FED Base	45.9	45.9	45.9	45.9	45.9
Minus Debt Service on Bonds	-6.6	-19.9	-34.7	-52.0	-61.3
Total Net Expenditures	$223.0	$196.1	$212.6	$227.3	--
Unfunded Debt Service	$0.0	$0.0	$0.0	$6.1	$15.4

14. As shown in the preceding table, the amount of base funds under this scenario would be sufficient to fund the ongoing debt service in the first three years, but would fall short of the debt service requirements beginning in 2006-07. In 2007-08, which is when debt service payments would reach the maximum level under this scenario, debt service payments would exceed the amount of base funding available by $15.4 million. Debt service payments would remain at this level for 16 years, beginning in 2007-08.

15. In order to implement the funding strategy outlined in the previous points during the 2001-03 biennium, additional SEG funds would have to replace the SEG-S funds (with a corresponding switch in funds for the major highway development program) and the additional estimated federal funds would have to be provided for the project. In addition, DOT could be required to submit a budget request for the 2003-05 biennium that does the following: (a) requests the approval of transportation fund-supported, general obligation bonds for the project; (b) requests the authorization of an amount of bonding sufficient to complete the project; and (c) requests modifications to SEG and FED base funds for the project in the amounts needed to pay the debt service on the bonds issued for the project.

16. The federal highway aid program has discretionary programs for interstate and high-cost bridge projects that would be a potential source of funding for the Marquette Interchange reconstruction. If the state is successful in obtaining funds from these programs for the Marquette Interchange, the amount of bonding identified in the previous scenario could be reduced, which would reduce the ongoing funding commitment required to pay debt service. For example, if the state received $25 million per year in discretionary funds for four years, the level of bonding could be reduced by $118 million and the unfunded debt service in 2007-08 would drop to $6.0 million.

17. Federal formula funds require a 20% nonfederal match and federal ICE funds require a 15% match. However, the amount of funding available in the SEG and SEG-S Marquette Interchange appropriations is insufficient to provide the match for the full amount of federal funds that would be provided in the bill. Because of the limited amount of matching funds provided by the bill, only $82,171,000 out of the $132,881,800 in total funds provided by the bill could be spent if only the Marquette Interchange SEG and SEG-S appropriations are used to provide a nonfederal

match (assuming that the federal formula funds would be spent first to avoid a lapse of these funds at the end of the federal fiscal year).

18. In order to provide the same total amount of funds as the bill, but allow the full amount to be utilized, federal formula funds could be exchanged for an equal amount of SEG funds in the state highway rehabilitation program. Under this alternative, the Marquette Interchange reconstruction appropriation would be modified as follows: (a) an increase of $1,412,200 SEG in 2001-02 and $5,747,100 SEG in 2002-03; and (b) a decrease of $1,412,200 FED in 2001-02 and $5,747,100 FED in 2002-03. The inverse adjustments would be made to the SEG and FED appropriations for state highway rehabilitation, keeping both programs funded at the same total level as under the bill.

19. If the additional federal funds are provided for the project ($21,443,100 in 2001-02 and $6,319,000 in 2002-03), no SEG funds would be available to provide a nonfederal match. Consequently, a similar funding source switch with the highway rehabilitation program could be implemented to allow this same total amount of funds to be spent on the Marquette Interchange. In this case, an additional $4,288,700 SEG in 2001-02 and $1,263,800 SEG in 2002-03 would be transferred from the state highway rehabilitation program and would be replaced by equal amounts of federal funds from the Marquette Interchange appropriation.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide $1,750,000 SEG, $26,868,000 FED and $2,264,300 SEG-S (revenue bond proceeds) in 2001-02 and $6,250,000 SEG, $91,067,200 FED and $4,732,300 SEG-S in 2002-03 to begin preliminary work related to the reconstruction of the Marquette Interchange in Milwaukee and to create four, continuing appropriations for Marquette Interchange reconstruction to account for SEG funds, federal funds, revenue bond proceeds and local funds provided for the project.

2. Approve the Governor's recommended funding mechanism for the Marquette Interchange project, with the following modifications: (a) reduce funding by $50,000 FED in 2002-03 to reflect the actual amount of federal ICE funds available for the project; (b) transfer $1,412,200 SEG in 2001-02 and $5,747,100 SEG in 2002-03 from the state highway rehabilitation program to the SEG appropriation for the Marquette Interchange reconstruction; and (c) transfer $1,412,200 FED in 2001-02 and $5,747,100 FED in 2002-03 from the amounts provided for the Marquette Interchange reconstruction to the state highway rehabilitation program.

3. Modify the Governor's recommendation as follows: (a) reduce funding by $50,000 FED in 2002-03 to reflect the actual amount of federal ICE funds available for the project; (b) transfer $2,264,300 SEG-S in 2001-02 and $4,732,300 SEG-S in 2002-03 from the amounts provided for the Marquette Interchange reconstruction to the major highway development program; (c) transfer $2,264,300 SEG in 2001-02 and $4,732,300 SEG in 2002-03 from the major highway development program to the SEG appropriation for Marquette Interchange reconstruction; (d)

transfer $5,700,900 SEG in 2001-02 and $7,010,900 SEG in 2002-03 from the state highway rehabilitation program to the SEG appropriation for Marquette Interchange reconstruction; (e) provide $5,700,900 FED in 2001-02 and $7,010,900 FED in 2002-03 for the state highway rehabilitation program to replace SEG transferred to the Marquette Interchange reconstruction appropriation; (f) provide $15,742,200 FED in 2001-02 and delete $691,900 FED in 2002-03 for the Marquette Interchange reconstruction; and (g) delete the SEG-S appropriation for the Marquette Interchange reconstruction and delete the authority of the Building Commission to issue revenue bonds for the Marquette Interchange project. Under this alternative, a total of $52,325,400 in 2001-02 and $108,318,500 in 2002-03 would be provided for the Marquette Interchange reconstruction, for a biennial total of $160,643,900. The ongoing SEG and FED base for the project would be $45,918,500.

In addition, require DOT to include a Marquette Interchange reconstruction funding proposal with its 2003-05 budget request that does the following: (a) requests the approval of transportation fund-supported, general obligation bonds for the project; (b) requests the authorization of an amount of bonding sufficient to complete the project; and (c) requests modifications to SEG and FED base funds for the project in the amounts needed to pay the debt service on the bonds issued for the project.

Alternative 3	FED
2001-03 FUNDING (Change to Bill)	$27,762,100

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