



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #761--Revised

Marquette Interchange Reconstruction (DOT -- State Highway Program)

[LFB 2003-05 Budget Summary: Page 424, #2]

CURRENT LAW

The statutes define the Marquette Interchange as all highways, including ramps and shoulders, encompassing I-43, I-94, and I-794 in Milwaukee County within the area bordered by 25th Street to the west, North Avenue to the north, the southern end of Burnham Canal to the south, and the Milwaukee River to the east. Using funds provided by 2001 Act 16, the Department of Transportation began preparatory work for the reconstruction of the interchange during the 2001-03 biennium.

A total of \$160,643,900 in SEG and FED funding was provided for the project by Act 16 in the appropriations for southeast Wisconsin freeway rehabilitation. The Department is prohibited from using funds from the state highway rehabilitation appropriations for the Marquette Interchange project or other southeast Wisconsin freeway rehabilitation projects.

Base funding in the southeast Wisconsin freeway rehabilitation appropriations is \$95,275,700 (\$40,207,900 SEG and \$55,067,800 FED). Of this amount, \$49,350,000 was transferred from the state highway rehabilitation appropriations by the Joint Committee on Finance, pursuant to a provision of 2001 Act 109, for the purpose of establishing a base of funding in the southeast Wisconsin freeway rehabilitation appropriations for freeway rehabilitation projects other than the Marquette Interchange. The remaining \$45,925,700 in base funds is for the Marquette Interchange reconstruction project.

GOVERNOR

Reduce funding for the current law appropriations for southeast Wisconsin freeway rehabilitation by \$16,052,600 annually, which is the net effect of reductions of \$32,302,400 SEG in 2003-04 and \$40,226,600 SEG in 2004-05 and increases of \$16,249,800 FED in 2003-04 and \$24,174,000 FED in 2004-05. Provide \$85,500,000 SEG-S in 2004-05 in a newly-created, continuing appropriation for the expenditure of revenue bond proceeds for the Marquette Interchange reconstruction project, which, when combined with the changes in SEG and FED funds in that year for southeast Wisconsin freeway rehabilitation, would result in a net increase in funding for the three appropriations of \$69,447,400 in 2004-05.

Specify that revenue bond proceeds may be used for the Marquette Interchange reconstruction project and include the project in a list of purposes for which the Building Commission may issue revenue obligations. Modify appropriations for the temporary financing (prior to reimbursement with bond proceeds) and revenue obligation funding of major highway development projects and transportation administrative facilities to specify that these appropriations also apply to the management of revenue bond financing for the Marquette Interchange reconstruction project. Include the appropriation for revenue obligation funding in an exclusive list of appropriations from which southeast Wisconsin freeway rehabilitation projects, including projects that involve adding one or more lanes five miles or more in length, may be funded.

DISCUSSION POINTS

1. There is broad consensus that the Marquette Interchange must be reconstructed over the next several years since the roadways and bridge structures that make up the interchange are reaching the end of their useful life. Areas of disagreement over the project mainly involve the scope and design of the project and the manner in which the project should be financed.

2. At the time of the deliberations on the 2001-03 biennial budget, it was expected that construction on the interchange would begin in the fall of 2003. However, in submitting his budget for 2003-05, Governor Doyle announced that the start of the project would be delayed by one year, to the fall of 2004. As had previously been planned, construction is expected to last four years, with the completion now expected in the fall of 2008, instead of the fall of 2007. The major contract lettings for the project would occur in 2004-05 and 2005-06, instead of the two fiscal years of the 2003-05 biennium.

3. The Department's preliminary plan for the construction of the project divides the work into four major parts. The following table shows the preliminary schedule for the bid letting date and for construction on each part, as well as the estimated total cost in 2001 dollars (construction and preliminary work) for each part. The segments shown in the table are defined as follows: (a) the north leg is I-43 from Wells Street on the south end to North Avenue on the north end; (b) the west leg is I-94 from 13th Street on the east end to 25th Street on the west end; (c) the

south leg is I-43/I-94 from the north side of the Menomonee Valley Bridge on the north end to the Burnham Canal on the south end; and (d) the core is from the center of the interchange to the inner-limits of the north, west, and south legs, and to the Milwaukee River on I-794 to the east.

<u>Segment</u>	<u>Bid Letting Date</u>	<u>Construction Schedule</u>	<u>Estimated Cost (In Millions)</u>
North Leg	July, 2004	October, 2004, to November, 2006	\$147.9
West Leg	November, 2004	February, 2005, to November, 2006	112.5
South Leg	July, 2005	October, 2005, to November, 2007	112.4
Interchange Core	August, 2005	November, 2005, to November, 2008	<u>436.6</u>
TOTAL			\$809.4

4. As shown in the previous table, the total cost of these four segments is estimated at \$809.4 million. This estimate does not include, however, the cost of traffic mitigation associated with the project, some interim repairs on certain ramps that is occurring in advance of reconstruction, and some construction work on local streets that will be done to accommodate the new interchange design. Adding the estimated cost of these items brings the total estimated cost to \$853.6 million.

5. As noted above, the cost estimates are expressed in 2001 dollars. Increasing these amounts by 3% per year for inflation until the year of anticipated expenditure would increase the total cost to \$935.4 million. However, DOT has indicated that the Department's intention is to keep the total cost of the project under \$890.0 million in nominal dollars. In order to accomplish this goal, some savings in project costs would have to be realized throughout the course of the project. The Department is currently considering various measures that could result in the necessary savings, with the intent of avoiding major changes in the scope of the project.

6. The Department's preliminary plan for the interchange, and the plan upon which the final design is now being conducted, is based on the general principal of upgrading the roadways, structures, and ramps to modern engineering standards. This includes replacing the current left-hand entrance and exit interchange ramps with right-hand ramps, improving the spacing between ramps, widening substandard shoulders, flattening steep grades, and straightening tight curves. The Department refers to this design as the "consensus design" since DOT believes that it represents the general consensus of opinions expressed by the public and by the major institutional representatives during the environmental assessment process that was conducted in preparation for the project.

7. Since the time that the consensus design was finalized and formally presented in February, 2002, some have advocated alternative designs or different approaches to financing the project. In particular, the City of Milwaukee has argued that the design of the interchange should be scaled down, primarily to reduce the overall cost of the project and reduce the impact that the finished interchange will have on the downtown area. The City has argued that in a time when the state faces fiscal problems, it would be irresponsible to rebuild the interchange at such a high cost

when a more affordable alternative is available. The City indicates that the estimated cost of this alternative reconstruction plan is \$550 million, or about \$340 million less than the Department's budget plan for building the consensus design.

8. The City's proposal involves a more limited reconfiguration of the interchange. For instance, certain left-hand ramps would be replaced with right-hand ramps where it could be demonstrated that this would result in clear safety benefits, but other left-hand ramps would be rebuilt as they are currently configured. The City believes that the Department's design makes unnecessary improvements to certain ramps and that the safety benefits of doing so were never demonstrated.

9. In addition to scaling back the interchange design, the City's alternative would redesignate I-894 as the through-route for I-94, to reduce traffic that travels through the interchange.

10. In response to the City's proposal, the Department has made the following points:

- An alternative similar to the City's alternative was presented in the environmental assessment for the project, but did not receive significant support from the public.

- While the estimated cost of the City's alternative is likely to be lower than the consensus design, the City's estimate is based upon an earlier planning study (the East-West Corridor Major Investment Study), while the estimated cost of the consensus design is based on more extensive engineering analysis. A comparison of the two figures, therefore, should be done with caution. Furthermore, the estimates of the cost of various Marquette Interchange alternatives contained in the East-West Corridor study encompassed a smaller area than the area upon which the consensus design estimates are based.

- Adopting a significantly different design alternative would require much of the work on the final design to be started over. Furthermore, many of the real estate transactions and utility relocation agreements that are necessary to accommodate the consensus design have already been negotiated. Switching to a new design would likely require some of these agreements to be renegotiated. The Department has already spent about \$60 million on planning, engineering, and real estate acquisition based upon the assumption that the consensus design will be built. Finally, the Federal Highway Administration has indicated that using a different design would require the federal environmental assessment process to be started over. The combination of these factors would delay the start of the project by two to three years.

11. Although adopting the City's alternative design proposal would result in a delay in the start of the project, it may be determined that the potential cost savings associated with choosing a scaled-back design outweigh the consequences of this delay. In this case, the Committee could direct the Department to prepare a report comparing the relative costs and benefits of the different design approaches. Following a review of this report, the Committee could be given authority to direct the Department to proceed with a scaled-back design for the interchange.

12. In addition to the City's alternative proposal, the Wisconsin Research Institute, a non-profit policy research group, released a report in December, 2002, that proposed an alternative financing mechanism for the interchange under which a private firm would manage the design and construction of the project and would collect tolls to finance the work. This approach would have the effect of requiring the users of the interchange, including non-state residents, to pay directly for the project through tolls, avoiding the need to provide public funds for the project.

13. As with the City's alternative proposal, the Institute's private toll proposal was made at a time when a significant portion of the design work on the Department's consensus design had already been completed. In order to proceed with a toll-financing approach, certain parts of the design would likely have to be re-done. In addition, the conversion of a portion of the interstate from a non-tolled highway to a tolled highway would require federal approval and would likely require the federal environmental assessment process to be started over, both of which would cause a delay in the start of the project. However, as with the City's alternative proposal, the Committee may decide that the benefits of the toll-financing approach outweigh the consequences of the delay. In this case, the Department could be directed to produce a report to the Committee on the costs and benefits of this approach. Similar to the consideration of the City's design, the Committee could be given the authority to direct the Department to proceed with a private, toll-financing approach.

14. As discussed above, the Department's intent is to construct the Marquette Interchange with a total budget staying below \$890 million. Of this amount, \$160.6 million was provided by 2001 Act 16. The following table shows the amounts provided for the Marquette Interchange reconstruction project by 2001 Act 16. The federal funds were provided for the project using both federal highway formula aid and one-time interstate cost estimate (ICE) funds that were earmarked for the project. Since the ICE funds are one-time funds and are, therefore, not part of the ongoing base, they are shown separately from the federal highway formula funds. The Department expects to use the amounts provided by Act 16 on activities in preparation for construction, including preliminary engineering, final design, and real estate acquisition.

<u>Funding Source</u>	<u>2001-02</u>	<u>2002-03</u>	<u>Biennial Total</u>
SEG	\$9,715,200	\$17,993,200	\$27,708,400
FED-Formula	29,860,200	27,925,300	57,785,500
FED-ICE	<u>12,750,000</u>	<u>62,400,000</u>	<u>75,150,000</u>
Total	\$52,325,400	\$108,318,500	\$160,643,900

15. The following table shows the total proposed funding for the Marquette Interchange reconstruction project during the 2003-05 biennium under the bill. The 2002-03 base for the southeast Wisconsin freeway rehabilitation appropriation is shown for comparison.

<u>Funding Source</u>	<u>2002-03 Base</u>	<u>Governor</u>	
		<u>2003-04</u>	<u>2004-05</u>
SEG	\$40,207,900	\$7,924,200	\$0
FED	55,067,800	71,317,600	79,241,800
Bonding	<u>0</u>	<u>0</u>	<u>85,500,000</u>
Total	\$95,275,700	\$79,241,800	\$164,741,800

16. The southeast Wisconsin freeway rehabilitation appropriation base shown in the previous table includes a total of \$45,925,700 (\$18,000,400 SEG and \$27,925,300 FED) that is allocated for the Marquette Interchange project and a total of \$49,350,000 (\$22,207,500 SEG and \$27,142,500 FED) that is allocated to other southeast Wisconsin freeway rehabilitation projects. The administration indicates, however, that all funding in the southeast Wisconsin freeway rehabilitation appropriations during the 2003-05 biennium would be allocated to the Marquette Interchange project, leaving no funding for other southeast Wisconsin freeway rehabilitation projects. Consequently, although the bill would reduce total SEG and FED funding in the southeast Wisconsin freeway rehabilitation appropriation by \$16,033,900 annually, the total amount of these funds allocated to the Marquette Interchange appropriation would increase by \$33,316,100 annually, from \$45,925,700 to \$79,241,800. The addition of \$85,500,000 in transportation revenue bonds in 2004-05 would increase total funding for the project in that year to \$164,741,800.

17. The following table shows the Department's plan for funding the project over the four fiscal years from 2003-04 to 2006-07, including the anticipated expenditures by year. The amounts shown in the table represent a general plan for financing the project and, therefore, may not match the actual expenditures. In particular, the more-detailed engineering estimates, relative to the plan shown in the table, reflect a lower level of expenditures in 2003-04 and a higher level in 2004-05. This is primarily because, under the detailed engineering estimates, the bid letting for both the north leg and west leg would occur in 2004-05 and no major contracts would be let in 2003-04.

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Funding Source				
Carry-Over from Prior Year	\$0	\$33,297,400	\$8,039,200	\$0
SEG	7,924,200	0	0	0
FED	71,317,600	79,241,800	79,241,800	79,241,800
SEG-S (Bonding)	<u>0</u>	<u>85,500,000</u>	<u>394,719,000</u>	<u>0</u>
Total Funding	\$79,241,800	\$198,039,200	\$482,000,000	\$79,241,800
Expenditures	\$45,944,400	\$190,000,000	\$482,000,000	\$10,000,000
Balance of Funds	\$33,297,400	\$8,039,200	\$0	\$69,241,800

18. The total amount of expenditures over the four years, as shown in the previous table, would be \$727,944,400. When this amount is added to the amounts provided in Act 16 for

preliminary activities, the total expenditures for the project would be \$888,588,300, slightly below the administration's \$890 million target budget.

19. Of the total estimated expenditures of \$888.6 million under the Department's plan, \$480.2 million, or 54%, would be paid with bonding. The bill includes an increase in bonding authorization sufficient to provide the \$85.5 million in 2004-05, as well as the \$394.7 million in 2005-06 (these amounts, plus an amount for the costs of issuance). The Department indicates that enough bonding was provided in the bill so that the major contracts scheduled for 2005-06 could be let using available funds even if the 2005-07 budget bill is not passed by the time the lets are scheduled, or if the bill does not provide additional funding. If additional SEG or FED funds are provided for the project in the 2005-07 biennium, then the amount of bonding used in 2005-06 could be reduced.

20. If full amount of bonding that is provided in the bill and included in the Department's funding plan is used on the project in 2004-05 and 2005-06, the total debt service on the bonds is estimated at \$4,953,100 in 2004-05, \$30,224,700 in 2005-06, and about \$41.3 million annually thereafter until the bonds are retired. This debt service would be in addition to amounts paid on other transportation revenue bonds provided by the bill for the major highway development and state highway rehabilitation programs. LFB Issue Paper #738 provides a discussion of the levels of bonding and debt service associated with the bill.

21. Under the Department's financing plan for the Marquette Interchange project, beginning in 2006-07, federal funding of \$69.2 million that had been allocated for the project in the prior year would be available to allocate for other purposes. However, after accounting for the annualized debt service on the Marquette Interchange bonds, the net increase in available funds would be \$27.9 million. This would increase to \$37.9 million in the following year.

22. Since the Marquette Interchange project requires a large increase in expenditures and since the project, when complete, is expected to have a long life span, it could be argued that the use of some amount of bonding for the project is an appropriate funding strategy. Furthermore, since the Department's funding plan for the project would allow the project to be completed and then allow the unallocated base funds remaining at the end of the project to essentially be used to pay debt service, it could be argued that the mix of cash financing and bond financing for the project is appropriate.

23. Others have argued that the use of bonds on the Marquette Interchange project would create a long-term commitment to the payment of debt service that would make it more difficult to provide funding for other planned southeast Wisconsin freeway reconstruction projects after the completion of the Marquette Interchange project. The Southeastern Wisconsin Regional Planning Commission (SEWRPC) is nearing the completion of a study of the entire freeway system. The study's preliminary, recommended alternative calls for the reconstruction of 270 miles of the system, including the addition of lanes on 127 miles of freeways, over a thirty-year period (2001-2030). The total, estimated cost of these projects is \$6.25 billion, or an average of slightly over \$200 million per year.

24. The decisions on the timing and scope of the reconstruction of the freeway system will ultimately be made by the Legislature through the budgets it provides for the work. The Legislature may decide, for instance, to scale back SEWRPC's recommendation with regards to the addition of freeway lanes. Regardless of what decision is made, however, the reconstruction of the freeways, of which the Marquette Interchange project is the first part, will require a significant commitment of resources over the next 20 years to 30 years. Some would argue, therefore, that while bonding may be appropriate for a one-time, expensive capital project, the Marquette Interchange is only the first of many projects on the freeway system. Using bonds for a significant percentage of these ongoing project expenditures would produce a level of debt service payments that would be difficult to sustain with current transportation fund revenues.

25. The use of cash financing, rather than long-term bonding, would require the commitment of significant increases in SEG or FED funding for the Marquette Interchange project in the 2003-05 biennium, as well as possible, additional increases in the 2005-07 biennium. A decision to take this approach should be made along with a consideration of the funding for other items that are funded with transportation SEG and FED funds. The following points provide information on one scenario under which the interchange reconstruction could be primarily cash-financed.

26. Letting a construction contract requires that a sufficient amount of budget authority be provided in the fiscal year that the contract is approved, even if the expenditures made on the contract occur in subsequent years. This is a significant issue in the case of the Marquette Interchange project, since the contracts that would be let in 2005-06 under the current schedule are large, but the expenditures would occur over a period of about three years. In 2005-06, the construction contracts are expected to exceed \$400 million, which may make it particularly difficult to entirely finance the project with current revenues. This situation could be remedied, however, by providing short-term bonds, with a maturity, for instance, of two or three years, to allow the funding to be encumbered for the contract. Payments would be made on these bonds on roughly the same schedule that expenditures would be made to pay the contractors, and could be paid with the base funds established for the project. This funding strategy can be distinguished from one in which long-term (20-year) bonds are used in the sense that it would not create a debt service funding commitment that extends much, if at all, beyond the completion of the construction work.

27. The following table shows a funding plan for the Marquette Interchange that uses the Department's assumptions on the overall cost and timing of the project, but which substitutes short-term bonding and additional SEG funds for the administration's use of long-term bonds. Under this scenario, base funds would be used to pay debt service on the short-term bonds, which would reduce the amount available for direct cash expenditures on the project in the years in which debt service payments are made. Since construction on the project is scheduled to continue through 2008-09 (November, 2008), this financing scenario would extend through that year. This scenario and the associated alternative (A2) are intended to provide one example of how the Marquette Interchange project could be financed without long-term debt. Other combinations of cash and short-term borrowing could produce similar results.

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>
Expenditures						
Project Costs	\$45,944,400	\$190,000,000	\$482,000,000	\$10,000,000	\$0	\$0
Short-Term Bonds	<u>0</u>	<u>-17,460,800</u>	<u>-347,455,600</u>	<u>0</u>	<u>0</u>	<u>0</u>
Cash Expenditures	\$45,944,400	\$172,539,200	\$134,544,400	\$10,000,000	\$0	\$0
Debt Service	<u>0</u>	<u>0</u>	<u>4,697,400</u>	<u>127,533,500</u>	<u>127,533,500</u>	<u>127,533,500</u>
Total Expenditures	\$45,944,400	\$172,539,200	\$139,241,800	\$137,533,500	\$127,533,500	\$127,533,500
Funding						
Carry-Over Balance	\$0	\$33,297,400	\$0	\$0	\$1,708,300	\$13,416,600
Bill Funding (SEG/FED)	79,241,800	79,241,800	79,241,800	79,241,800	79,241,800	79,241,800
Additional SEG Funding	<u>0</u>	<u>60,000,000</u>	<u>60,000,000</u>	<u>60,000,000</u>	<u>60,000,000</u>	<u>60,000,000</u>
Total Funding Available	\$79,241,800	\$172,539,200	\$139,241,800	\$139,241,800	\$140,950,100	\$152,658,400
Balance	\$33,297,400	\$0	\$0	\$1,708,300	\$13,416,600	\$25,124,900

28. There are several things to note about this scenario:

- Total cash financing, principal, and interest under this scenario (excluding the \$160.6 million that was provided for the project in Act 16) would total \$750.3 million over these six years, with no funding required after this time. Base funding of \$139.2 million would be available for other projects beginning in 2009-10. Under the Department's financing plan, total cash financing, principal, and interest would total \$1,171.4 million over a period from 2003-04 to the time that the 20-year bonds are retired, which would be about 2026. Under the Department's plan, a net amount of \$37.9 million in base funding, after accounting for ongoing debt service, would be available for other projects, beginning in 2007-08.

- An additional \$60,000,000 would be provided beginning in 2004-05 for the project, using SEG funds. This amount would be used to either directly cash-fund project expenditures or to pay debt service. Most of the non-bonding funds provided by the bill for the project are federal funds. In order to allow additional project funding to be used for debt service, the Department could be given the authority, with the approval of the Joint Committee on Finance under a passive-review process, to transfer federal funds allocated to the Marquette Interchange project to another highway program to be exchanged with an equal amount of SEG funds for the Marquette Interchange project.

- In order to facilitate the use of base SEG funds either directly for project expenditures or for debt service, the funding, instead of being appropriated, could be placed in a reserve within the transportation fund. From the reserve, the Department could be directed to transfer amounts necessary to pay debt service on the project to the debt service appropriation and all remaining amounts to the SEG appropriation for the project. DOT could be directed to place \$60,000,000 in this reserve annually, beginning in 2004-05, but this amount could be increased if FED funds for the project are exchanged with SEG funds from one of the other state highway programs.

- A total of \$364,916,400 in short-term bonding authority would be provided in order to allow contracts for the major segments of the project to be let for bidding in 2004-05 and 2005-06. In order to ensure that these bonds would not create a debt service funding commitment that extends beyond the completion of construction on the Marquette Interchange project, the Building Commission could be directed to structure the bond issuance such that no debt service payments would extend beyond 2008-09. The bonds would be transportation fund-supported, general obligation bonds, so that if the reserve within the transportation fund has insufficient funds for the payment of debt service, other transportation fund revenues would be appropriated to make up the difference.

- Although the authorization of the bonds would be needed to allow the large contracts for the project to be let in 2004-05 and 2005-06, expenditures on those contracts may not occur until subsequent years. In order to reduce the actual use of bonding, and thus reduce interest costs, the Department could be directed, as much as possible, to: (a) disencumber bond funds in the years in which expenditures occur and, in place of bond proceeds, expend FED or SEG funds; and (b) consult with DOA and Building Commission staff to reduce the amount of bonds issued accordingly.

- If an amount of additional funding (above the amounts in the bill) is provided in 2004-05 that is less than \$60,000,000, additional short-term bonding would be required to let the planned contracts in that year. The use of additional bonding would increase debt service costs in subsequent years, relative to the scenario shown in the table. However, the financing plan could still be structured to retire the bonds using the reserved funds if the amounts placed in the project reserve are increased in the 2005-07 biennial budget. As the table shows, the amount of funding that would not be committed to the project (the "balance") begins to accumulate in 2006-07 and reaches \$30.1 million in 2008-09, which allows some cushion.

- Similar to the Department's funding plan for the project, this scenario represents a preliminary plan. The amounts or assumptions may have to be adjusted in subsequent years, particularly in the 2005-07 budget, in order to account for changes in the timing or cost of the project. In addition, the receipt of federal earmarks for the project could reduce the amount of SEG funds or formula FED funds that would have to be used for the project

29. The Department is required to submit a financing plan for the Marquette Interchange project to the Federal Highway Administration (FHWA), and annual updates to the plan, since it is classified as a "mega project" under federal law. The initial financing plan must include, among other things, an estimate of the project cost and must identify the manner in which the project will be financed, and must be submitted prior to the first construction contract lets. Annual updates to the plan must report on the progress of the project, including any changes to the estimated cost and, if costs are expected to increase, it must identify how the increased costs will be financed. One alternative that would allow the Legislature to keep apprised of the Marquette Interchange project would be to require the Department to submit summaries of the initial financing plan and of the annual updates to the Joint Committee on Finance when these plans are submitted to FHWA.

30. As noted above, the Department's plan for the financing of the Marquette Interchange involves, in part, reallocating base funding from other southeast Wisconsin freeway rehabilitation projects, which had been established at \$49,350,000. This decision would result in the delay of projects that had been planned for the 2003-05 biennium. These delayed projects are listed in the following table. (The cost of the projects shown in the table does not include the estimated design engineering cost of these projects or any amount for contract change orders, which explains why the total cost of the delayed projects is less than \$49,350,000 annually. If these costs had been included in the Department's list of delayed projects, then the project totals would approximate the \$98.7 million that had been allocated to the projects.)

<u>County</u>	<u>Highway</u>	<u>Project Description</u>	<u>Project Type</u>	<u>Estimated Cost</u>
Kenosha	I-94	Wetland Mitigation	Miscellaneous*	\$358,092
Milwaukee	I-43	Sunny Slope Road to Hale Interchange	Reconditioning	5,357,000
Milwaukee	I-43	Layton Avenue	Reconstruction	2,110,068
Milwaukee	I-43	Marquette Interchange to Lexington	Miscellaneous*	464,287
Milwaukee	I-43	Mitchell Interchange to National Avenue	Miscellaneous*	409,722
Milwaukee	USH 45	Zoo Freeway	Resurfacing	600,000
Milwaukee	USH 45	USH 45 Northbound, I-94 to CTH Q	Road Maintenance	430,208
Milwaukee	USH 45	I-94 to CTH Q	Miscellaneous*	409,722
Milwaukee	STH 119	Airport Spur	Reconditioning	7,143,000
Racine	I-94	Kenosha County to Milwaukee County	Road Maintenance	655,555
Walworth	I-43	Rock Freeway Southbound	Resurfacing	21,696,000
Walworth	I-43	Rock Freeway Northbound	Resurfacing	16,258,000
Waukesha	STH 16	STH 16	Miscellaneous*	1,012,990
Waukesha	I-43	I-43 Northbound Off Ramp to 124th St.	Ramp Work	200,473
Waukesha	I-94	CTH SS to West Waukesha County Line	Resurfacing	15,179,000
Waukesha	I-94	I-94 at CTH JJ and USH 18	Miscellaneous*	<u>4,464,000</u>
TOTAL				\$76,748,117

* Miscellaneous projects include traffic signalization, lighting, wetland mitigation, or other types of similar work that are associated with another construction project.

31. In addition to these southeast Wisconsin freeway rehabilitation projects, the Department developed a list of state highway rehabilitation projects that may be delayed as the result of funding reductions in that program (see LFB Issue Paper #760). Whereas the Department developed the list of delayed state highway rehabilitation projects with the intent of minimizing the delay of projects on high-volume highways, the delayed projects in the above list are all on high-volume freeways. To the extent that delays in either program may ultimately cause the affected highways to degrade to a worse condition before they are repaired, some would argue that it would be preferable to apply limited funds to the projects on high-volume freeways instead of low-volume highways. In this case, restoring funding of \$49,350,000 annually for work on non-Marquette Interchange projects on southeast Wisconsin freeways may take precedence over providing additional funding for the state highway rehabilitation program.

32. A decision to restore funding for the non-Marquette Interchange projects on the

southeast Wisconsin freeways would not ensure that the funding would actually be allocated to those projects, since the Department would not be prohibited from using the additional funding on the Marquette Interchange project. In order to ensure that this funding is used on the non-Marquette Interchange freeway projects, a provision could be created that would do the following: (a) require the Department to allocate at least \$49,350,000 in funds for non-Marquette Interchange freeway projects from the amounts provided in the southeast Wisconsin freeway rehabilitation appropriations in each fiscal year; (b) specify that any amounts that are not encumbered out of the annual allocation in one fiscal year would carry over to the next year and have the effect of increasing the allocation for projects in that year by the amount that is carried over; (c) specify that the Department could encumber funds that are allocated to the non-Marquette Interchange freeway projects on the Marquette Interchange project in a fiscal year as long as the annual allocation to non-Marquette Interchange projects in the following year is increased over \$49,350,000 by an amount equal to the amount reallocated to the Marquette Interchange (the "borrowed funds"); and (d) specify that funds allocated for non-Marquette Interchange projects could not be "borrowed" for two consecutive years (in order to prevent the Department from effectively borrowing funds for the duration of the Marquette Interchange project).

33. The allocation of funding for non-Marquette Interchange freeway projects discussed in the previous point could be done either in conjunction with restoring the full amount of funding (\$49,350,000 annually) or restoring only partial funding. In the event that the full amount of funding is not restored, but the allocation requirement is adopted, the amount of funding available for the Marquette Interchange project would effectively be reduced. For instance, if the Department is required to annually allocate \$49,350,000 for southeast Wisconsin freeway projects, but only the amount by which the bill would reduce SEG and FED funds for projects is restored (a total of \$16,052,600 annually), then the amount of SEG and FED funds available for the Marquette Interchange project would be reduced to \$45,944,400 annually (the base allocation plus standard budget adjustments).

34. A case could be made that, in a budget in which the funding for many state programs, including some transportation programs, will be reduced, that it is reasonable that expenditures on non-Marquette Interchange, southeast freeway rehabilitation projects be reduced as well. If, for instance, the allocation of funding to these projects were reduced by 5%, the allocation would be established at \$46,882,500. This would require the Department to prioritize the scheduled southeast freeway rehabilitation projects and could reduce the amount of additional funds that would need to be provided to fund the Marquette Interchange project using a financing strategy that avoids the use of long-term bonding.

ALTERNATIVES

A. Marquette Interchange Funding

1. Approve the Governor's recommendation to reduce funding for the current law appropriations for southeast Wisconsin freeway rehabilitation by \$16,052,600 annually, which is the

net effect of reductions of \$32,302,400 SEG in 2003-04 and \$40,226,600 SEG in 2004-05 and increases of \$16,249,800 FED in 2003-04 and \$24,174,000 FED in 2004-05 and to provide \$85,500,000 SEG-S in 2004-05 in a newly-created, continuing appropriation for the expenditure of revenue bond proceeds for the Marquette Interchange reconstruction project.

2. Modify the Governor's recommendation by adopting a financing policy, as outlined under Points #27 and #28, that would not rely on the use of long-term bonds, as follows: (a) reduce bond funding for the Marquette Interchange project by \$85,500,000 SEG-S in 2004-05, reduce transportation revenue bond authorization by \$483,820,000, delete the Marquette Interchange SEG-S bonding appropriation, and increase estimated transportation fund revenue by \$4,953,100 in 2004-05 (a reduction in revenue bond debt service) to reflect the decision to eliminate the use of long-term bonds on the project; (b) place \$60,000,000 SEG in 2004-05 in a newly-created, non-lapsing reserve in the transportation fund for the Marquette Interchange construction project and for the payment of debt service on short-term bonds issued for the project; (c) require DOT to place \$60,000,000 in the Marquette Interchange reserve every year following 2004-05 until, and including, 2008-09 and specify that any amounts remaining in the reserve on June 30, 2009, lapse to the transportation fund; (d) require DOT to annually allocate the amount in the reserve to a newly-created SEG appropriation for the payment of debt service on short-term bonds issued for the Marquette Interchange project, or a portion of the reserve equal to the amount of debt service on such bonds to be paid in that year, whichever is less; (e) require DOT, in any year in which it is determined that the amounts in the reserve are insufficient to pay debt service on the bonds issued for the project, to submit a request to the Co-Chairs of the Joint Committee on Finance for review under a 14-day passive review process to transfer FED funds in the appropriation for southeast Wisconsin freeway rehabilitation (other than federal funds that are earmarked for the Marquette Interchange project) that are not allocated to non-Marquette Interchange freeway projects to either the state highway rehabilitation or major highway development programs and transfer an equal amount of SEG from those programs to the Marquette Interchange reserve; (f) specify that the amount of FED funds in the southeast Wisconsin freeway rehabilitation appropriation that would be exchanged as specified under "(e)" would be equal to the amount needed to provide sufficient funds in the reserve to pay debt service in that fiscal year or the full amount of FED funds available for such a transfer, whichever is less; (g) require DOT, in each fiscal year during the duration of the construction on the Marquette Interchange project, to transfer amounts that are not used for debt service payments on the bonds issued for the project to the SEG appropriation for southeast Wisconsin freeway rehabilitation, if such amounts are needed for expenditures on the project; (h) authorize \$364,916,400 in transportation fund-supported, general obligation bonds for the project and require the Building Commission to structure the issuance of these bonds such that debt service payments will not extend beyond 2008-09; (i) specify that no bonds may be issued after July 1, 2007; and (j) require DOT, to the maximum extent possible, to minimize the issuance of bonds for the project, including by disencumbering bond funds that were encumbered for project contracts if SEG or FED amounts in the southeast Wisconsin freeway rehabilitation appropriations could be used to meet the expenditure obligations in lieu of bond proceeds.

<u>Alternative A2</u>	<u>BR</u>	<u>SEG-S</u>	<u>SEG</u>	<u>SEG-Reserve</u>	<u>TOTAL</u>
2003-05 REVENUE (Change to Bill)	- \$118,903,600		\$4,953,100		- \$113,950,500
2003-05 FUNDING (Change to Bill)		- \$85,500,000		\$60,000,000	- \$25,500,000

3. Require DOT to submit a summary of the financial plan for the Marquette Interchange project that the Department is required to submit to the Federal Highway Administration under federal law, as well as summaries of annual updates to that plan, to the Joint Committee on Finance at the time that the plans are submitted to the Federal Highway Administration. This alternative could be adopted in addition to any Marquette Interchange funding alternative.

B. Marquette Interchange Design

1. Direct the Department to produce a report to be submitted to the Joint Committee on Finance by October 1, 2003, in which the costs and benefits of proceeding with a design for the Marquette Interchange project that is based on the City of Milwaukee's proposed alternative is compared to the Department's current design for the project (the "consensus design"). Specify that if the Co-Chairs do not notify DOT within 14 working days after the date that the report is submitted that the Committee has scheduled a meeting to review the report, the Department may proceed with the consensus design. Specify that if, within 14 working days after the submittal, the Co-Chairs notify DOT that the Committee has scheduled a meeting to review the report, the Department may not let any contracts based on the consensus design until the Committee meets to review the report. Specify that the Committee may take action with respect to the report that it deems necessary, including directing the Department to proceed with a design for the interchange that is based on the City's proposal or a design that modifies the consensus design.

2. Direct the Department to produce a report to be submitted to the Joint Committee on Finance by October 1, 2003, in which the costs and benefits of proceeding with a public-private partnership approach to constructing the Marquette Interchange project, in which tolls are collected to finance the project, is compared to the current, public-financing approach. Specify that if the Co-Chairs do not notify DOT within 14 working days after the date that the report is submitted that the Committee has scheduled a meeting to review the report, the Department may proceed with the construction on the project. Specify that if, within 14 working days after the submittal, the Co-Chairs notify DOT that the Committee has scheduled a meeting to review the report, the Department may not let any contracts on the project until the Committee meets to review the report. Specify that the Committee may take action with respect to the report that it deems necessary, including directing the Department to proceed with the process necessary to obtain federal approval to use a toll-financing approach and introducing any legislation that is deemed necessary to create the public-private financing system for the project.

3. Maintain current law. This would allow the Department to proceed with the consensus design for the project, using the current, public-financing approach.

C. Non-Marquette Interchange, Southeast Wisconsin Freeway Project Funding

The alternatives in this section would change the total funding for the program, without specifying the funding source (FED or SEG). The actual funding source used for the adjustments will depend upon the relative availability of funds of each type, which, in turn, will depend upon the Committee's decisions on other budget items. Since these projects can and usually do use both state or federal funding sources, these adjustments can be made without having an adverse impact on the program, provided that sufficient SEG funds are available for the required match on FED funds. Alternative C3 or C4 may be adopted in addition to one of the other funding alternatives.

1. Modify the Governor's bill by providing \$49,350,000 annually for southeast Wisconsin freeway rehabilitation projects other than the Marquette Interchange. This would restore base funding for these projects.

<u>Alternative C1</u>	<u>All Funds</u>
2003-05 FUNDING (Change to Bill)	\$98,700,000

2. Modify the Governor's bill by providing \$46,882,500 annually for southeast Wisconsin freeway rehabilitation projects other than the Marquette Interchange. This would provide an amount that is a 5% reduction to the amount that had been allocated for these projects in the 2002-03 base.

<u>Alternative C2</u>	<u>All Funds</u>
2003-05 FUNDING (Change to Bill)	\$93,765,000

3. Require DOT to allocate at least \$49,350,000 annually in the 2003-05 biennium and annually thereafter for southeast Wisconsin freeway rehabilitation projects other than the Marquette Interchange project from the appropriations for southeast Wisconsin freeway rehabilitation. Specify that any amounts that are not encumbered out of the annual allocation in one fiscal year for these projects would carry over to the next year and have the effect of increasing the allocation for projects in that year by the amount that is carried over. Specify that the Department could encumber funds that are allocated to the non-Marquette Interchange freeway projects on the Marquette Interchange project in a fiscal year as long as both of the following apply: (a) the annual allocation to non-Marquette Interchange projects in the following year is increased over \$49,350,000 by an amount equal to the amount reallocated to the Marquette Interchange project, from funds in the appropriation that are allocated for the Marquette Interchange project in that year; and (b) the non-Marquette Interchange allocation was not reduced for the purposes of encumbering funds on the Marquette Interchange project in the previous year.

4. Adopt Alternative C3, except establish the allocation for these projects at \$46,882,500 per year.

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