



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #735

### **Harbor Assistance Program (DOT -- Local Transportation Projects)**

[LFB 2005-07 Budget Summary: Page 476, #1]

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#### **CURRENT LAW**

The Department of Transportation administers the harbor assistance program, which provides grants for making capital improvements to harbors on the Great Lakes or the Mississippi River system. Eligible projects include dockwall and disposal facility construction, repair, maintenance, or rehabilitation, dredging and dredged materials disposal, or other physical improvements that maintain or increase commodity or passenger movement capabilities. Both publicly and privately owned harbors that serve freight or passenger vessels (including both ferries and cruise ships) are eligible for assistance. Projects are selected primarily using a cost-benefit analysis, where the economic impact of the project is compared to its projected cost. State funds provide up to 80% of the cost of the project, while the local sponsor must pay the remaining 20%. The state share is paid either from an appropriation from the transportation fund or from the proceeds of general obligation bonds provided for the program. The 2003-05 biennial budget act authorized \$500,000 SEG annually and \$3,000,000 in bonds for making grants. Debt service on the bonds is paid from the transportation fund.

#### **GOVERNOR**

Provide an increase in general obligation bonding authority of \$11,400,000 for the harbor assistance program to provide total authority of \$39,400,000, which is the cumulative total amount of bonding that has been and would be provided for the program. In addition, provide \$204,000 SEG in 2005-06 and \$733,500 SEG in 2006-07 for the payment of principal and interest on the additional general obligation bonds and \$350,000 SEG annually for making additional grants for harbor improvements. Create a federal funds appropriation for the harbor assistance grant program.

Create nonstatutory provisions that require DOT, subject to specified conditions, to make the following grants in the 2005-07 biennium from the bonding funds: (a) a grant of \$6,000,000 to a city in northeastern Wisconsin that has a harbor facility for the purpose of constructing new boatlift facilities or improving existing boatlift facilities that serve or will serve at least two commercial enterprises that enhance economic development and will provide at least 600 new jobs in the state; and (b) a grant of \$2,100,000 for a boat slip repair and reconstruction project in northeastern Wisconsin if the project is necessary to retain at least 2,500 jobs in the state. Specify that the following current law provisions with respect to the harbor assistance program do not apply to these grants: (a) the requirement that local sponsors pay at least 20% of the project's cost; and (b) a requirement that DOT award grants on the basis of established criteria, including a requirement that priority be given on the basis of the amount of tonnage and waterborne transportation handled in the harbor.

## **DISCUSSION POINTS**

1. When added to base SEG funding for harbor assistance projects (\$500,000 annually), the SEG increase and additional bonding authority provided by the bill would raise the total amount of funding for harbor improvements in the biennium to \$13,100,000. This is an increase of \$9,100,000, relative to most recent biennia, when a total of \$4,000,000 was provided. A portion of this increase would be used to award \$8,100,000 in grants, as required by a nonstatutory provision in the bill, to projects in the northeastern part of the state. The remaining \$1,000,000 increase is intended to meet rising demand for grants under the program, due to increased port activity and recent changes to the program that allow harbors that serve passenger ferries and cruise ships and privately-owned harbors to be eligible for grants.

2. The required \$6,000,000 grant would be used for dredging and the construction of a new boatlift in Sturgeon Bay, which would be used by Bay Shipbuilding Company and Palmer Johnson Yachts. The Governor has announced that other state grants would be made for other improvements in the vicinity of the harbor, although the bill would not create specific requirements with respect to these grants. These include two grants totaling \$1,200,000 from the transportation economic assistance (TEA) program to Sturgeon Bay for making the harbor improvements and to relocate roads to allow for the construction of a new Palmer Johnson plant, and a grant of \$2,000,000 from the Department of Commerce to Palmer Johnson Yachts for the construction of the new plant. The total cost of the economic development projects, including the harbor improvements and road improvements, and the work on the company facilities is expected to be \$50.8 million. When he announced this package of incentives, the Governor indicated that the \$6,000,000 grant was contingent upon legislative approval.

3. The required \$2,100,000 grant would be combined with \$750,000 that has already been committed from funds provided in the 2003-05 biennium to provide a grant for dredging and the reconstruction of a dock wall in a slip used by Georgia-Pacific, in the Port of Green Bay. Georgia-Pacific has agreed to pay the 20% required match for these grants. The boat slip is used to unload coal shipments used by the company's power generation facility.

4. The bill would exempt both harbor projects from the harbor program requirement that local sponsors pay at least 20% of the project's cost and the requirement that DOT award grants on the basis of established criteria, including a requirement that priority be given on the basis of the amount of tonnage and waterborne transportation handled in the harbor. The exemption from the match requirement would not affect the Sturgeon Bay project, since the total cost of the harbor-related work is expected to be about \$25.5 million, requiring the two companies to pay amounts exceeding 20% of the project cost. It is unclear how the exemption from the project selection criteria would affect the Sturgeon Bay project since no grant application has been submitted for that project, and, therefore, the Department has not been able to evaluate the project on the harbor program criteria. DOT indicates, however, that the project would likely rate well since it is anticipated to have substantial benefits. The exemption from the match requirement would not affect the Green Bay project since, as noted above, Georgia-Pacific has already agreed to pay 20% of the cost of the project. The exemption from the project selection criteria would not likely affect the Green Bay project since Brown County submitted a grant application in 2004 that was rated favorably, although not enough funds were available to make the grant at that time.

5. With both the required grants, the improvements would be used by just one (in the case of the Green Bay grant) or two businesses (the Sturgeon Bay grant). The harbor assistance program has funded several improvements that benefit a single or small number of businesses. For instance, in 1999 the Department provided a \$4,000,000 grant for a dockwall reconstruction and dredging project in Marinette, for the benefit of Marinette Marine, also a shipbuilding company. Like the proposed grants in the bill, the grant to Marinette Marine was a requirement included in a budget bill, along with additional bonding. In 2004, the Department provided an \$800,000 grant to construct facilities in Milwaukee to allow the Lake Express ferry to begin operations, while in 2005, a grant of \$1,100,000 was made for dredging in Oconto to allow Cruisers Yachts to more efficiently launch completed vessels.

6. Although DOT has made several grants for harbor projects that are used by just one or two businesses, the Sturgeon Bay grant would be the largest such grant in the history of the program. For this reason, the decision to award both the Sturgeon Bay grant and the Green Bay grant at the same time could create an expectation that the state will offer similarly large grants to businesses in the future.

7. In making the announcement for the Sturgeon Bay assistance package, the Governor indicated that providing assistance to the two Sturgeon Bay companies offered the chance to foster an economic development project that would generate up to 600 well-paying jobs, while the grant to Georgia-Pacific would allow that company to avoid a potential plant shutdown that could affect up to 2,750 jobs.

8. If the Committee determines that requiring DOT to provide grants to particular projects outside of the program's normal approval procedure and funding level would create an unsustainable precedent or would otherwise be undesirable, a decision could be made to delete these requirements from the bill and eliminate some or all of the additional bonding provided for these grants. Under this alternative, the two projects would still be eligible for assistance under the

program, but would have to compete with other potential projects for the available funding. In both cases, the companies that benefit from the improvements are also paying for a portion of the cost or are making investments related to the proposed harbor improvements. If the additional funding for these harbor improvements is reduced or eliminated, then the companies may have to accept a lower level of funding and, consequently, pay a larger share of the cost of the improvement, or alternatively, modify the improvements to reduce the total cost.

9. If the additional \$8.1 million in bonding authority provided for the grants in Green Bay and Sturgeon Bay is eliminated, debt service on harbor bonds would be decreased, relative to the bill by \$154,100 in 2005-06 and \$538,700 in 2006-07. If the additional bonding authority is reduced by \$4.1 million, debt service would be decreased by \$78,000 in 2005-06 and \$272,700 in 2006-07, relative to the bill.

10. As noted above, in addition to the funding provided for the grants in Sturgeon Bay and Green Bay, the bill would provide an increase of \$1,000,000 over the biennium for the harbor assistance program. The Department had asked for this increase in its agency budget request, indicating that an overall increase in port activity, plus a recent expansion to the types of eligible recipients under the program justified an increase in the size of the program. Eligibility for harbor assistance was increased by the 2001-03 budget act to include improvements designed to serve cruise ships, and by 2003 Act 208 to include privately owned harbor facilities.

11. To be eligible for harbor assistance, a project must be identified in a three-year harbor improvement plan. Those plans are prepared annually by harbor program applicants. In the plans submitted to the Department in 2004, there were a total of 11 potential improvements identified for 2006, with total requested state funding of \$31.3 million (excluding the Georgia-Pacific project in Green Bay and the Sturgeon Bay project). Of these 11 projects, five are given the highest priority rating by the local governments, with total requested state funding of \$20.0 million, which is considerably higher than the \$5.2 million requested in 2005 and \$5.6 million in 2004, for similarly rated projects. However, of the total amount requested in 2006, \$16.0 million is for a single port redevelopment project in Green Bay. The Department indicates that there are occasionally very large projects like this one included in harbor plans that the Department is unable to fund because of their size. The Department may fund a portion of this project through the harbor assistance program and the improvement may be done over multiple years.

12. The two changes to the harbor program eligibility mentioned above were made without the provision of additional money. If the additional \$1,000,000 is not provided for the harbor assistance program, then the newly eligible project activities would continue to compete with traditional harbor projects for the same amount of available funds. Eliminating this additional funding would result in a reduction, relative to the bill of \$350,000 SEG annually and \$300,000 in bonding authorization. In addition, there would be an estimated reduction in SEG debt service, relative to the bill, of \$4,600 in 2005-06 and \$17,700 in 2006-07.

13. In addition to the bonding authorized for the harbor grants for the Green Bay and Sturgeon Bay projects and the additional bonding and SEG provided to increase the funding

available for other harbor assistance projects, the bill would create a federal funds appropriation for the harbor assistance program. The Department indicates that this appropriation would be used to account for federal grants received for harbor projects, although no funding is reflected in that appropriation in the bill's appropriation schedule.

**ALTERNATIVES**

**A. Mandatory Harbor Grants**

1. Adopt the Governor's recommendation to provide \$8,100,000 in bonding authority for the harbor assistance program, require DOT to make grants of \$6,000,000 and \$2,100,000 for specific harbor improvement projects in northeastern Wisconsin cities, and increase estimated debt service associated with this amount of bonding by \$154,100 SEG in 2005-06 and \$538,700 SEG in 2006-07.

2. Modify the Governor's recommendation to require DOT to make two grants to northeastern Wisconsin cities by deleting the specific grant amounts and by reducing the amount of additional bonding authority provided for these projects to \$4,000,000. Reduce estimated debt service by \$78,000 SEG in 2005-06 and \$272,700 SEG in 2006-07.

<u>Alternative A2</u>	<u>BR</u>	<u>SEG</u>	<u>TOTAL</u>
<b>2005-07 FUNDING</b> (Change to Bill)	- \$4,100,000	- \$350,700	- \$4,450,700

3. Delete provision.

<u>Alternative A3</u>	<u>BR</u>	<u>SEG</u>	<u>TOTAL</u>
<b>2005-07 FUNDING</b> (Change to Bill)	- \$8,100,000	- \$692,800	- \$8,792,800

**B. Standard Harbor Assistance Funding**

1. Approve the Governor's recommendation to provide \$3,300,000 in bonding authority and provide increases of \$350,000 SEG annually for the harbor assistance program to provide a total of \$5,000,000 for the program during the 2005-07 biennium. Increase estimated debt service, relative to the base, by \$49,900 SEG in 2005-06 and \$194,800 SEG in 2006-07 on this level of bonding. This would provide \$1,000,000 more than has typically been made available for the program in recent past biennia. In addition, approve the Governor's recommendation to create a federal funds appropriation for harbor projects.

2. Modify the Governor's recommendation by reducing the bonding authorization from \$3,300,000 to \$3,000,000 and by deleting the additional \$350,000 SEG annually to provide the same level of funding for the program that has been provided in the most recent biennia (\$4,000,000, including the \$500,000 base SEG appropriation). Decrease estimated debt service, relative to the bill, by \$4,600 SEG in 2005-06 and \$17,700 SEG in 2006-07 to reflect debt service on this amount of bonding. In addition, approve the Governor's recommendation to create a federal funds appropriation for harbor projects.

<u>Alternative B 2</u>	<u>BR</u>	<u>SEG</u>	<u>TOTAL</u>
<b>2005-07 FUNDING</b> (Change to Bill)	- \$300,000	- \$722,300	- \$1,022,300

3. Delete provision.

<u>Alternative B 3</u>	<u>BR</u>	<u>SEG</u>	<u>TOTAL</u>
<b>2005-07 FUNDING</b> (Change to Bill)	- \$3,300,000	- \$944,700	- \$4,244,700

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