



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #748

State Highway Maintenance and Traffic Operations Funding (DOT -- State Highway Program)

[LFB 2005-07 Budget Summary: Page 484, #5]

CURRENT LAW

The state highway maintenance and traffic operations program is responsible for a variety of activities related to the upkeep of state highways and highway rights-of-way, including the minor repair of pavements and bridges, snow plowing and ice removal, mowing and other vegetation management, and the maintenance of highway rest areas and waysides. Most of this work is performed by counties under contract with the state. In addition, the program is responsible for the installation, repair, and maintenance of signs, highway lighting, pavement marking, traffic signals, and intelligent transportation systems (ITS), unless the installation or replacement of these items is incidental to a larger highway improvement project, in which case they may be funded from the state highway rehabilitation or southeast Wisconsin freeway rehabilitation programs. (Intelligent transportation systems involve the use of various technological measures, such as ramp meters, freeway cameras, and variable message signs to improve traffic flow and provide information to the public on traffic conditions). Base funding for the maintenance and traffic operations program is \$167,275,300 SEG and \$1,102,900 FED. The federal funds are used for the Milwaukee freeway traffic operations center.

GOVERNOR

Provide \$5,790,200 SEG in 2005-06 and \$12,257,100 SEG in 2006-07 for the state highway maintenance and traffic operations program.

DISCUSSION POINTS

1. According to the Executive Budget Book, the increases provided for the maintenance and traffic operations program reflect the following: (a) a 2.0% annual inflationary increase, calculated on a base that excludes salaries and fringe benefits for state employees (\$2,912,400 in 2005-06 and \$5,883,000 in 2006-07); and (b) an increase to reflect the projected growth in the number of lane miles and traffic on the state highway system (\$2,877,800 in 2005-06 and \$6,374,100 in 2006-07).

2. Like for the maintenance and traffic operations program, 2.0% annual inflationary adjustments were also provided for several other DOT programs, including local transportation aids, certain local transportation assistance programs, and the state highway rehabilitation and major highway development programs. The intent of providing an inflationary adjustment is to allow a program to provide roughly the same level of service in succeeding years as in the base year despite rising costs. However, in some cases the cost of certain items for which the program is responsible may increase at either a faster or slower rate than the general inflation rate. DOT indicates that the cost of certain items that make up a large portion of the maintenance and traffic operations program's expenditures have increased faster than the general inflation rate in recent years. For instance, partly due to rising fuel costs, the reimbursement rates used to pay counties for their use of equipment in the course of maintenance activities rose, on average, by 7.8% from 2004 to 2005, continuing a pattern occurring over the past several years.

3. It should be noted, however, that many programs are not provided inflationary adjustments on the basis of the programs' particular costs. In these cases, it may be the expectation that the program has to absorb the higher costs by either finding ways to deliver services more efficiently, generate savings in areas where costs did not increase as rapidly, or reduce services.

4. In addition to the inflationary adjustment, the bill would provide funding to reflect projected increases in the number of lane-miles and traffic on the state highway system (\$2,877,800 in 2005-06 and \$6,374,100 in 2006-07). The formula that the Department uses for allocating maintenance funds for each county is based on the number and type of state highway lane-miles within the county. Since the amounts budgeted for each lane-mile depend, among other things, upon the traffic volume on the highway, an increase in traffic on a particular highway segment may have the effect of moving that segment into a higher reimbursement class, which, in turn, increases the amount that would be allocated to the county where the segment is located. Likewise, the construction of new highways or the addition of lanes to existing highways also have the effect of increasing the amounts budgeted for the counties in which such increases occur. The funding increases for lane-mile and traffic growth are intended to allow the Department to provide increases to counties that experience this growth.

5. If the total amount of funding for county maintenance contracts does not increase to compensate for lane-mile and traffic increases, then the counties that have such growth will not necessarily receive an increase in maintenance funding. Instead, the Department's allocation formula would have the effect of reallocating funds from counties where such growth was less than

average to counties where growth was greater than average, meaning that the amounts that are allocated per lane-mile for each class of highway would decline.

6. The basic principle behind the funding increases for growth in lane miles and traffic is that such growth increases the cost of highway maintenance. However, while the Department's formula for calculating the compensating funding increases assumes that the costs associated with each added lane-mile are equal to the average cost for lane-miles in that class, the actual, marginal costs of additional lane-miles could be lower. To illustrate this point with an example, a maintenance crew doing pothole repair uses certain equipment and materials. While the amount of material and the hours of labor needed for the work will increase as the number of lane-miles that must be repaired increases, the crew would not need additional equipment as long as the increase remains within a certain range. A case could be made, therefore, that the lane-mile and traffic growth adjustments, because they are based on average lane-mile costs rather than marginal costs, overstate the total growth in costs.

7. The intent of both the inflationary and lane-mile and traffic growth funding adjustments are to provide the same, general level of services for the maintenance program as was provided in the base year. However, some have made the case that the level of resources provided for the program in the base year is insufficient to properly maintain the state highway system. In this case, regardless of whether or not the bill's system growth adjustments are overstated, the total level of funding provided may still be inadequate. This view was expressed by the Wisconsin Counties Association, as well as by at least one county highway commissioner, in written testimony submitted to the Committee during public hearings on the bill. Similarly, although the bill would provide a total of \$18.0 million for the program, this amount is just 47% of the \$37.9 million increase that the Department had proposed in its agency budget request.

8. The funding situation for the maintenance and traffic operations program has been affected by decisions made over the past two biennia, particularly a decision related to the responsibility for funding traffic operations and intelligent transportation systems (ITS) projects. The 2001-03 biennial budget (2001 Act 16) modified the statutory definition of "highway improvement" to exclude the installation, replacement, rehabilitation, or maintenance of traffic operations items and ITS projects, unless the work is incidental to a highway construction project. The effect of this change was to prohibit the Department from funding stand-alone traffic operations and ITS projects from the state highway rehabilitation or southeast Wisconsin freeway rehabilitation program appropriations and, instead, require them to be funded from the highway maintenance and traffic operations program appropriations. At that time, DOT indicated that the Department had been spending approximately \$27 million annually from the highway rehabilitation programs on stand-alone projects of both types.

9. In order to allow the maintenance and traffic operations program to absorb the added responsibility of funding traffic operations and ITS projects, \$27.0 million was provided for the maintenance and traffic operations program in 2001-02, the first year of the change, but this amount was reduced to \$7.4 million in 2002-03. However, using funds carried over from the prior year (mostly funds from the \$27.0 million that had been provided in that year, but which had not been

encumbered by the end of that year), the Department was able to budget a total of \$21.8 million on both types of activities in 2002-03.

10. The 2003-05 budget made further reductions for traffic operations and ITS projects by eliminating the \$7.4 million in base funds in both years of the biennium. In addition, as with many transportation programs in the 2003-05 biennium, there was no funding increase provided for the rest of the program. Despite the elimination of these funds, the Department made the decision to continue expenditures on certain traffic operations projects that were considered critical for safety. Accordingly, spending on traffic operations projects has been limited to edge- and center-line pavement markings, replacement of light bulbs in select locations on the southeast Wisconsin freeway system, and the replacement of severely deteriorated sign bridges. Generally, the Department has halted all new stand-alone projects involving the installation of, and maintenance on, traffic signals, signs, and lighting, and has discontinued pavement markings that are not for edge and center lines, such as turn arrows and raised centerline markers. In addition, the Department set aside \$2.4 million in the first year of the biennium to use as a match for federal funds that were earmarked for ITS projects, which would lapse if not used. In total, the Department budgeted \$11.0 million in 2003-04 and \$10.4 million in 2004-05 for both traffic operations and ITS projects.

11. Since the 2003-05 budget did not actually provide any base funding for traffic operations and ITS projects, the Department had to divert funding from the rest of the program to support the level of spending that DOT considered necessary for safety and to avoid lapsing federal ITS funds. This decision has affected both the portion of the budget allocated for contracts with counties to perform maintenance on state highways and the portion of the budget for other maintenance activities that are not performed by the counties. The effects on both of these parts of the maintenance program are described below.

12. The funding allocated for county maintenance contracts was reduced by 5% in each year of the 2003-05 biennium, relative to the amount provided in 2003, which amounts to annual reductions of \$5.4 million. DOT indicates these reductions were taken primarily in what the Department refers to as "discretionary" maintenance. Typically, these funds had been withheld from the regular distribution to be used for contingencies, such as repairing flood damages, but also for more routine maintenance in counties where repair costs exceeded the amounts budgeted for the county. The Department indicates that an attempt has been made to minimize the impact of these cuts on roadways and bridges, but that the condition of some highway features, such as paved and gravel shoulders has declined, and the amount of crack filling and pavement repair work that counties have been able to do has been affected.

13. The Department also eliminated or reduced funding for other maintenance program activities unrelated to the county maintenance contracts or traffic operations and ITS projects. These include the elimination of noxious weed control, the elimination of funding for the construction of salt storage facilities, and the elimination of funding for materials research and testing.

14. Some of the savings generated in the 2003-05 biennium in the maintenance and

traffic operations portion of the program involve the deferral of spending on certain items, rather than permanent reductions in program responsibilities. For instance, while the maintenance on and replacement of traffic signals, highway lighting, and traffic signs can be deferred for a period of time, it can be expected that eventually these items will have to be maintained or replaced if they are to remain functional. The inflationary and system growth adjustments would not specifically provide funding to resume these deferred activities. Similarly, the savings generated by eliminating the discretionary maintenance funding and funding for noxious weed control would not be restored with the funding provided by the bill.

15. In response to the funding situation described in the previous points, some legislators have expressed an interest in providing additional funding for the program. The following table shows the funding amounts that would be associated with percentage increases for the program at various levels, and the difference between these amounts and the amounts in the bill. In addition to showing the amounts corresponding to equal, annual percentage increases from 1% to 6%, the table also shows the amounts that would be provided under the bill from the combination of the inflationary and lane-mile funding adjustments (slightly less than 4.0% in 2005-06 and slightly less than 4.3% in 2006-07).

<u>Annual % Increase</u>	<u>Change to Base</u>		<u>Change to Bill</u>	
	<u>2005-06</u>	<u>2006-07</u>	<u>2005-06</u>	<u>2006-07</u>
1.0%	\$1,456,200	\$2,927,000	-\$4,334,000	-\$9,330,100
2.0%	2,912,400	5,883,000	-2,877,800	-6,374,100
3.0%	4,368,600	8,868,300	-1,421,600	-3,388,800
4.0%	5,824,800	11,882,600	34,600	-374,500
4.0%/4.3%*	5,790,200	12,257,100	0	0
5.0%	7,281,000	14,926,100	1,490,800	2,669,000
6.0%	8,737,200	17,998,600	2,947,000	5,741,500

*Funding level under the Governor's bill, combining inflationary and lane-mile growth adjustments.

16. In addition to, or instead of, adopting one of the funding increases shown in the above table, the Committee could decide to adopt one or more of the following funding adjustments: (a) an increase of \$7,400,000 annually, as proposed by the Department in its biennial budget request, for traffic operations projects; (b) an increase of \$2,800,000 in 2006-07 for state highway intelligent transportation systems, also as requested by the Department; or (c) an increase of \$428,000 annually to provide the same level of ongoing funding for the operation of lift bridges in Winnebago County that the Committee has previously approved for 2004-05. These alternatives are described in further detail in the following points.

17. As noted above, the Department has budgeted \$10.4 million for traffic operations items in 2004-05, despite the fact that the base funding that had been previously allocated for these projects was eliminated by Act 33. A decision to provide \$7,400,000 annually for traffic operations projects, as DOT had requested, would allow the Department to either increase the amounts spent

on these items or to continue the same level of funding for these items while restoring a portion of the funding for other affected maintenance functions, or some combination of these.

18. Intelligent transportation systems are projects designed to improve traffic flow through the use of ramp meters, traffic signal coordination, variable message signs, traffic cameras, commercial motor vehicle weigh-in-motion facilities, and other measures. In its agency budget request, the Department indicated that the federal government may begin requiring states to spend a portion of their federal highway aid on ITS projects as an alternative approach to congestion management. Based on a version of this requirement that was included in the surface transportation reauthorization act passed by the U.S. House of Representatives, it is believed that Wisconsin could be required to spend about \$10 million on these projects in order to avoid the lapse of that amount. The Department's budget request included \$2,800,000 for ITS projects, which would be used to provide a 20% match on the federal funds plus funding for the ongoing maintenance and operations costs of the projects. Since the bill would not provide the requested matching funds, the Department could be required to allocate funds currently spent on other highway maintenance purposes to provide the match. A decision could be made to provide the amount requested by the Department for ITS projects in order to avoid the potential diversion of funds that would otherwise be allocated to other maintenance purposes.

19. Although there is a potential that the state could be required to allocate a portion of its federal funds for ITS projects, it remains uncertain whether this requirement will become law. The U.S. Senate has not included such a requirement in its version of the reauthorization act, so the final decision will be made in a conference committee. If such a requirement does become law, adjustments may need to be made to the Department's appropriations to reallocate federal funds to the FED appropriation for maintenance and traffic operations, an adjustment that could become the subject of a request made to the Committee. In the event that such an adjustment is required, other adjustments could also be made to the SEG appropriation for the program.

20. At a February meeting under s. 13.10 of the statutes, the Committee approved a request to transfer \$428,000 SEG from the state highway rehabilitation program to the highway maintenance and traffic operations program in 2004-05 to fund the operations of seven state-owned lift bridges in Winnebago County. The Department had preliminarily indicated that the hours of operation of these bridges would be reduced during the 2005 boating season in order to save money in the maintenance program. Subsequent to this decision, however, the U.S. Coast Guard decided to bring these bridges under federal regulation, in which case the state is required to maintain a certain bridge operation schedule. The Department requested the fund transfer in order to continue operating the bridges on the Coast Guard schedule without impacting the budget for other maintenance functions. The approval of this request, however, only provided funding on a one-time basis for 2004-05. Therefore, since the Department is required maintain operations on the bridges on the Coast Guard schedule, the Department would have to absorb the associated costs by reallocating funds from other maintenance functions. A decision to provide \$428,000 annually would allow the Department to fund the bridge operations without affecting other functions.

21. In addition to any decisions that the Committee makes on the amount of funding

provided for the maintenance and traffic operations program, the Committee could also consider the merits of a proposal submitted by the Wisconsin Counties Association, in written testimony on the bill, to create an appropriation for the county maintenance contracts. This new appropriation would be separate from the existing SEG, FED, and SEG-L appropriations, which would continue to fund the program's administrative costs, traffic operations, ITS projects, and maintenance services not performed by counties. This appropriation structure could allow the Legislature to more clearly delineate between the funding provided for both types of functions.

22. The amounts that are allocated each year for county contracts depend upon the total amount of funding provided for the program and upon the Department's decisions regarding the allocation of that total. If an alternative to create a separate county contracts appropriation is adopted, the Committee could require DOT to submit a request to the Committee under s. 13.10 of the statutes to transfer an amount to the county contracts appropriation, based upon the Department's allocation of the total budget.

23. A decision to adopt two separate SEG appropriations for the maintenance and traffic operations program would reduce the Department's flexibility in managing resources. For instance, the Department would not be able to move savings from functions funded under one appropriation to cover a funding shortfall for the functions in the other appropriation. For example, under the current, single-appropriation structure, the Department may be able to defer bid lettings for traffic operations projects scheduled late in the fiscal year to the following year to help recover from the effects of a particularly high-cost winter season, something that could not be done under a two-appropriation structure without a request to the Committee under s. 13.10.

24. One other alternative that could be adopted in addition to, or instead of, the above alternatives, would be to establish a winter maintenance reserve appropriation in order to provide a funding source for winter costs that exceed the amount that the Department had budgeted for that purpose in any year. In developing an operating budget for the maintenance and traffic operations program, the Department budgets for winter maintenance based upon the average costs over the prior five years. If costs exceed that amount, the Department can direct counties to make compensating reductions in maintenance work in the following spring and summer or could use amounts set aside in a winter reserve, if such a reserve is available. In the 2001-03 biennium, the Department budgeted for a \$1,500,000 winter emergency reserve, but eliminated that reserve as part of the budget cuts for the 2003-05 biennium. A new, continuing winter reserve appropriation with a \$1,500,000 annual funding level would provide the Department a reserve without affecting the amounts budgeted for other purposes. The use of the amounts in the reserve could be subject to approval of the Committee under a 14-day passive review process.

25. The funding decisions made for the maintenance and traffic operations program will need to be made in the context of an overall consideration of available transportation revenues and funding demands for other programs. Like the maintenance and traffic operations program, there are demands for additional funding in many transportation programs. If a decision is made to reduce or eliminate the fee increases in the bill or reduce the state's reliance on bonds for the major highway development program or the Marquette Interchange project, the amount of revenues

available for the maintenance and traffic operations program, as well as the other programs, may be reduced.

ALTERNATIVES

A. Highway Maintenance and Traffic Operations Funding Level

1. Approve the Governor's recommendation to provide \$5,790,200 SEG in 2005-06 and \$12,257,100 SEG in 2006-07 for the state highway maintenance and traffic operations program, to provide increases for inflation and state highway system growth.

2. Modify the Governor's recommendation by instead providing changes in SEG funding as shown in the following table to provide the corresponding percentage increases for the program.

	<u>Annual % Increase</u>	<u>Change to Bill</u>	
		<u>2005-06</u>	<u>2006-07</u>
a.	1.0%	-\$4,334,000	-\$9,330,100
b.	2.0%	-2,877,800	-6,374,100
c.	3.0%	-1,421,600	-3,388,800
d.	4.0%	34,600	-374,500
e.	5.0%	1,490,800	2,669,000
f.	6.0%	2,947,000	5,741,500

3. Adopt one or more of the following funding increases in addition to or instead of the previous alternatives:

a. Provide \$7,400,000 SEG annually for traffic operations projects, to restore the amount of base funding that had been provided for these projects in 2002-03.

<u>Alternative A3a</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	\$14,800,000

b. Provide \$2,800,000 SEG in 2006-07 for state highway intelligent transportation systems.

<u>Alternative A3b</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	\$2,800,000

c. Provide \$428,000 SEG annually to provide the same level of ongoing funding that the Committee approved in 2004-05 (but which is not included in the base) for lift bridge

operations.

<u>Alternative A3c</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	\$856,000

4. Delete provision.

<u>Alternative A4</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	- \$18,047,300

B. Appropriation Structure

1. Create a new SEG appropriation for county maintenance contracts and modify the current SEG, FED, and SEG-L appropriations for the state highway maintenance and traffic operations program to exclude county maintenance contracts. Require DOT to submit a request to the Joint Committee on Finance, for the Committee's second quarterly meeting under s. 13.10 of 2005-06, to transfer funds from the existing appropriation to the new appropriation for county maintenance contracts, based upon the Department's operating budget for the program. Specify that the Committee may approve or modify and approve the request. Create a nonstatutory provision specifying that the Department may make encumbrances and expenditures from the existing appropriation for purposes related to both appropriations until the effective date of the transfer.

2. Take no action.

C. Winter Reserve

1. Provide \$1,500,000 SEG annually in a new, continuing appropriation for winter maintenance reserve funding. Specify that DOT may use amounts in the winter reserve if both the following apply: (a) costs of winter maintenance in any year exceed the amounts budgeted for winter maintenance in that year, based on the prior five-year average winter costs; and (b) the Joint Committee on Finance approves a request from the Department to use amounts in the winter reserve under a 14-day passive review process.

<u>Alternative C1</u>	<u>SEG</u>
2005-07 FUNDING (Change to Bill)	\$3,000,000

2. Take no action.

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