



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #776

State Highway Rehabilitation Funding (DOT -- State Highway Program)

[LFB 2009-11 Budget Summary: Page 624, #1]

CURRENT LAW

The state highway rehabilitation program is responsible for the reconstruction, reconditioning, and resurfacing of the highways and bridges of the state highway system, except for the highways on the southeast Wisconsin freeway system. Base funding for the program is \$690,534,900, which includes \$344,787,600 SEG and \$345,747,300 FED.

GOVERNOR

Provide \$132,067,200 FED in 2009-10 from federal stimulus funds for the state highway rehabilitation program. Reduce funding by \$1,995,400 FED in 2009-10 and \$8,655,800 FED in 2010-11 and provide corresponding increases of \$1,995,400 SEG in 2009-10 and \$8,655,800 SEG in 2010-11 to reflect the reallocation of estimated federal highway formula aid among the Department's appropriations, while maintaining total funding constant.

DISCUSSION POINTS

1. The increase for the state highway rehabilitation program is provided with funds received under the federal economic stimulus act. At the time that the transportation provisions in the bill were developed, the precise amount of stimulus funds that the state would receive was unknown. Based on an early version of the federal bill, it was assumed that the state would receive \$563.7 million in highway funds and that 50% of that would be spent in 2008-09, leaving the other half, or \$281.9 million, to be budgeted in 2009-10. The \$132.1 million provided for the state highway rehabilitation program is an allocation of these funds.

2. Two factors have reduced the amount of federal economic stimulus funding

available in 2009-10, relative to the total amount reflected in the bill. First, the actual amount received by the state (\$529.1 million) is \$34.6 million less than had been assumed. Second, of the amount actually received, an estimated \$341.2 million (64% of the total) will be spent in 2008-09 (including \$161.8 million for state highway rehabilitation projects), leaving \$187.9 million remaining for 2009-10, which is \$94.0 million less than the amount reflected in the bill. Furthermore, since the bill would not allocate stimulus funding to satisfy commitments for local projects, the shortfall in available funds for state highway programs is greater. In total, the bill would provide \$247.1 million for state highway programs, but after making adjustments for the amount actually received, the amount allocated to projects in 2008-09, and the amount committed to local projects, only \$55.9 million will remain for those programs. Consequently, to accurately reflect the amount of stimulus funds available for state highway programs in 2009-10, the Committee must reduce the amount allocated to state highway program appropriations by a total of \$191.2 million, a reduction of 77.4%.

3. Of the \$132.1 million in economic stimulus funds provided for the program by the bill in 2009-10, \$22.1 million is designated as a set-aside for local projects in the Madison and Milwaukee urbanized areas. Of the \$529.1 million in stimulus funds received by the state, \$158.7 million must be set aside for highway and bridge projects in specific areas, subdivided by population, including separate set-asides specifically for the Milwaukee (\$38.7 million) and Madison (\$9.8 million) urbanized areas. The \$22.1 million included in the bill was intended to reflect a portion of the set-aside, although the precise amount that would be needed to satisfy the requirement was unknown at the time that the transportation provisions were developed. Since the introduction of the bill, the Committee has followed a process created under Act 2 of reviewing individual requests from the Governor for the use of transportation stimulus funding. One alternative to the bill would be to remove the \$22.1 million from the state highway rehabilitation appropriation, which would require the Governor to continue to use the Act 2 review process for the use of local set-aside funding [Alternative #2a].

4. Not including the amount of economic stimulus funding designated for Madison and Milwaukee, the bill would provide \$110,010,700 for state highway rehabilitation projects. As noted above, however, the Committee will have to adjust this amount to reflect the actual amount of such funds available in 2009-10. If the Committee decides to make the necessary reductions on a proportionate basis among all state highway programs, the 2009-10 allocation to the state highway rehabilitation program would be reduced from \$110,010,700 to \$24,888,200 [Alternative #2b].

5. In earlier action on the bill, the Committee provided an additional \$14,237,200 in 2009-10 for the state highway rehabilitation program using federal funds received under an incentive grant program for adopting a primary seat belt enforcement law. If the Committee adopts a proportionate reduction in stimulus funds to all highway programs, as described in the previous point, the total, above-base funding increase for the program would be \$39.1 million (\$24.9 million in stimulus funds and \$14.2 million from the incentive grant).

6. Three separate items in the bill would reduce funding for the state highway programs, including the state highway rehabilitation program, which has the effect of partially

offsetting the increase provided with economic stimulus funds. First, funding would be reduced by \$7,968,200 SEG in 2009-10 and \$7,337,200 SEG in 2010-11 as part of an initiative to reduce funding for engineering consultants for highway projects. Second, a reduction of \$3,000,000 SEG annually would be taken from the Department's appropriation for rent and other facilities costs related to the highway program, a cost that would have to be absorbed by the state highway rehabilitation program. Third, an item that would reduce funding for most non-federal appropriations in state government by 1% would result in a reduction of \$3,447,900 SEG annually. Over the biennium, these reductions would total \$28.2 million, which would offset almost three-quarters of the above-base increase provided with federal funds as described in the previous point, leaving a net increase of \$10.9 million. On an ongoing basis, however, the SEG reductions, totaling \$13,785,100 in 2010-11, would amount to a 2% reduction in the base for the program.

7. Although the net funding increases provided over the biennium as described in the previous point would be relatively small (0.8% over the base-year doubled), a total of \$161.8 million in federal economic stimulus funds were allocated to state highway rehabilitation projects under 2009 Act 2 in 2008-09. In addition, the state received more federal highway aid in federal fiscal year 2009 than anticipated. Under the Department's plan for allocating this additional aid, funding for the program was increased by \$59.1 million, including both the amount of formula aid allocated to the program (\$53.6 million) and funding for federally-earmarked state highway rehabilitation projects (\$5.5 million). These increases, amounting to 32.0% of the program base, will allow the Department to complete more rehabilitation projects in 2008-09 than had been anticipated by the Legislature (although some of the additional funding may be carried over for projects in 2009-10). Some may argue this additional funding makes further increases in the 2009-11 biennium unnecessary. Measured over the three-year period from 2008-09 through 2009-11, total funding would exceed the 2008-09 base tripled by \$231.8 million, or 11.2%.

8. Others argue that overall funding for state highway improvements falls far below the level needed to maintain a quality system over the long term. As an illustration of this point, over the past five years, the Department has done a complete reconstruction or pavement replacement on an average of 124 miles of roadway each year. At this rate, it would take about 100 years to do a reconstruction or pavement replacement project on every roadway segment in the state trunk highway system (not including southeast Wisconsin freeways, which are covered under a separate program). Although no five-year period is necessarily indicative of the pace of system improvements over the long term, this suggests that even with optimal rehabilitation and maintenance, the current level of funding in the program is not sufficient to reconstruct highways on a pace that replaces them within their useful life, which, with periodic resurfacing and preventive maintenance, is typically 50 to 60 years. From this perspective, the federal economic stimulus funding may serve a purpose of increasing the amount of construction employment during the short term to combat high unemployment in that industry, but it does not provide a sustained level of highway infrastructure spending needed to maintain the highway system in good condition over the long term.

9. At the time of the introduction of the bill, the biennium-ending transportation fund balance was estimated at \$32,324,800. Based on revised revenue estimates and the Committee's

earlier actions, the biennium-ending balance is now estimated at \$4,543,400. This relatively small balance means that without significant modifications to revenues or the reallocation of transportation fund resources, such as a reduction in the amount provided for general fund programs, it would be difficult to substantially change the funding for the state highway rehabilitation program. However, if such changes allow the Committee to provide additional funding for the program, one alternative would be to restore funding for highway engineering and rent costs (under LFB Issue Paper #779). If additional revenues are available, the Committee could provide more funding for the program. An additional \$3,447,900 annually would restore the 1% SEG reduction [Alternative #2c]. The Committee could provide an additional \$6,804,200 in 2009-10 and \$13,676,400 in 2010-11, which would be a 1% annual increase on the entire SEG and FED program base, excluding the portion for state-funded salary and fringe benefits costs, and would be the amount that the Department requested for the program in its biennial budget request [Alternative #2d].

10. In addition to the allocation of federal stimulus funding to the state highway rehabilitation program, the bill would make reductions to the FED appropriations to reflect a reallocation of federal formula aid among the Department's appropriations, but these reductions would be offset with a corresponding increase in SEG funds for the program, so that there is no net change from these adjustments.

ALTERNATIVES

1. Approve the Governor's recommendation to provide \$132,067,200 FED in 2009-10 from federal stimulus funds for the state highway rehabilitation program. Reduce funding by \$1,995,400 FED in 2009-10 and \$8,655,800 FED in 2010-11 and provide corresponding increases of \$1,995,400 SEG in 2009-10 and \$8,655,800 SEG in 2010-11 to reflect the reallocation of estimated federal highway formula aid among the Department's appropriations, while maintaining total funding constant.

2. Modify the Governor's recommendation by adopting one or more of the following funding adjustments:

a. Reduce funding by \$22,056,500 FED in 2009-10 to reflect the elimination of federal economic stimulus funding in the state highway rehabilitation program designated for the Milwaukee and Madison urbanized areas. [This alternative would require the Governor to utilize the Act 2 Joint Committee on Finance review process for the allocation of stimulus funding for local projects and would not affect the amount that would be set aside for those projects.]

ALT 2a	Change to Bill Funding
FED	- \$22,056,500

b. Reduce funding by \$85,122,500 FED in 2009-10 to reduce the allocation of federal

economic stimulus funding from \$110,010,700 to \$24,888,200, to reflect a proportionate reduction in the allocation of such funds to the program to match the amount that is actually available for state highway programs in 2009-10.

ALT 2b	Change to Bill Funding
FED	- \$85,122,500

c. Increase funding by \$3,447,900 SEG annually to restore the funding reduction made under the 1% across-the-board reduction item.

ALT 2c	Change to Bill Funding
SEG	\$6,895,800

d. Increase funding by \$6,804,200 SEG in 2009-10 and \$13,676,400 SEG in 2010-11 to provide a 1% annual increase for the program, calculated on a base that excludes state-funded salary and fringe benefit costs. [Some or all of the increase under this alternative could be provided with federal highway formula funds, depending upon the relative availability of each fund source at the time of the Committee's action.]

ALT 2d	Change to Bill Funding
SEG	\$20,480,600

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