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Joint Committee on Finance

Paper #650

Southeast Wisconsin Freeway Megaprojects -- Zoo Interchange and I-94 North-South (DOT -- State Highway Program)

[LFB 2013-15 Budget Summary: Page 461, #2]

CURRENT LAW

The Department of Transportation's (DOT) southeast freeway megaprojects program is for reconstruction projects on freeways in Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington, and Waukesha counties with a cost exceeding \$535 million, a threshold that is indexed annually according to a construction cost index computed by DOT. Two southeast Wisconsin freeway megaprojects, which must be enumerated in the statutes prior to construction, are currently underway: (a) the I-94 North-South freeway, from the Mitchell Interchange (I-894/I-43/I-94) in southern Milwaukee County to the Illinois state line, a distance of 35 miles; and (b) the Zoo Interchange, consisting of the interchange core at the junction of I-94, I-894, and USH 45 in western Milwaukee County, as well as the approaches in all four directions (a total of nine miles of freeway, from 70th Street to 124th Street on the east-west axis, and from Burleigh Street to Lincoln Avenue on the north-south axis).

The 2012-13 appropriation base for the program is \$95,053,100 FED and \$45,832,800 SEG. In addition, the 2011-13 biennial budget authorized \$151,200,000 in transportation fund-supported, general obligation bonds for the program, of which \$47,200,000 was allocated for projects in 2012-13, bringing total base year funding for the program to \$188.1 million.

Preparatory work on the Zoo Interchange project began in the fall of 2012, and construction on arterial streets, in advance of the principal work on the freeways, began in early 2013.

GOVERNOR

Authorize \$200,000,000 in general fund-supported, general obligation bonds for

southeast Wisconsin freeway megaprojects and authorize \$107,000,000 in transportation fund-supported, general obligation bonds for the Zoo Interchange and I-94 North-South freeway projects. Decrease base funding by \$1,076,300 SEG in 2013-14 and \$37,576,300 SEG in 2014-15 in the southeast Wisconsin freeway megaprojects appropriation, amounts that would be reallocated within the transportation budget. Increase funding by \$1,666,700 GPR and \$3,717,000 SEG in 2014-15 to reflect estimated debt service payments on the bonds, based upon the Department of Administration's bond issuance assumptions for the Zoo Interchange and North-South freeway projects.

DISCUSSION POINTS

1. Although the bonds that would be authorized by the bill could be used on either of the two megaprojects, DOT indicates that the \$200,000,000 in general fund-supported bonds and \$102,000,000 of the transportation fund-supported bonds would be used for the Zoo Interchange and the remaining \$5,000,000 in transportation fund-supported bonds would be used for the North-South freeway project. The following table shows the Department's proposed allocation of total funding, by year and fund source, for the two projects during the 2013-15 biennium.

| | <u>2013-14</u> | <u>2014-15</u> | <u>Biennial Total</u> |
|----------------------------|--------------------|----------------|-----------------------|
| Zoo Interchange | | | |
| SEG | \$7,946,900 | \$7,946,900 | \$15,893,800 |
| FED | 90,053,100 | 92,053,100 | 182,106,200 |
| GPR Bonds | 0 | 200,000,000 | 200,000,000 |
| SEG Bonds | <u>102,000,000</u> | <u>0</u> | <u>102,000,000</u> |
| Total | \$200,000,000 | \$300,000,000 | \$500,000,000 |
| North-South Freeway | | | |
| SEG | \$36,750,000 | \$250,000 | \$37,000,000 |
| FED | 5,000,000 | 3,000,000 | 8,000,000 |
| SEG Bonds | <u>5,000,000</u> | <u>0</u> | <u>5,000,000</u> |
| Total | \$46,750,000 | \$3,250,000 | \$50,000,000 |
| Program Total | \$246,750,000 | \$303,250,000 | \$550,000,000 |

2. The I-94 North-South freeway project involves the reconstruction of interchanges, frontage roads, and the mainline freeway, with the construction of additional lanes, to provide four, general-purpose lanes in each direction. Construction on the project was started in 2009. Through the 2011-13 biennium, a total of \$1.05 billion has been provided for engineering and construction costs for the project, out of a total estimated cost of \$1.91 billion.

3. Originally, the North-South freeway project was scheduled for completion in 2016. With the 2011-13 budget, however, a decision was made to reduce work on the North-South freeway in order to advance work on the Zoo Interchange project. Although some major frontage road and interchange work has been completed, most of the work involving reconstruction and expansion of the mainline freeway, and some interchange work, remains unfinished. The Department's revised schedule for the project would push completion to 2021. The Department indicates, however, that since actual costs and inflation have been less than expected, it is not

expected that the final cost will exceed the original estimate of \$1.91 billion.

4. The \$50 million proposed for the North-South freeway would be \$35 million less than the \$85 million that the Department had previously planned to allocate to the project in the 2013-15 biennium. With the funding provided by the bill, the Department indicates that work would proceed on the STH 20 Interchange in Racine County and the Ryan Road Interchange in Milwaukee County, but work that had been planned on several frontage roads would be postponed until future biennia.

5. In response to new revenue estimates that projected a \$63.5 million deficit in the transportation fund under provisions of the bill (currently estimated at \$54.3 million, based on the Committee's earlier actions), the administration proposed reducing funding for several programs to achieve a positive balance. Among those recommendations was a proposal to delay work on the Ryan Road Interchange until a future biennium, for a projected savings of \$19,000,000 over the biennium, with \$15,750,000 of that amount in 2013-14 and \$3,250,000 in 2014-15 (Alternative 2a). [Since there is not enough SEG funds allocated to the project in 2014-15 to take this full reduction, this alternative would involve a reduction of \$250,000 SEG and \$3,000,000 FED in that year. The FED funds would then be used to increase funding in the state highway rehabilitation program, with a corresponding decrease of SEG funds in that program.] If the Committee determines that a delay of this interchange work is not warranted, actions could be taken to achieve savings in other programs or generate additional revenue.

6. The Zoo Interchange involves reconstruction and replacement of roadways and structures along I-94, I-894, and USH 45 within the project limits, as well as all ramps through the core of the interchange and several cross street bridges and interchanges. With reconstruction, the Department's plan calls for design "modernization" to address what are considered substandard features, such as interchange spacing, shoulders, curves, and vertical clearances. The I-894/USH 45 mainline segment (north-south) is planned for expansion from three to four lanes in each direction, and several system ramps through the core of the interchange will also be expanded. While the I-94 mainline (east-west) will be maintained at two lanes in each direction through the core, the Department plans to build this segment with 18-foot wide shoulders, sufficient to accommodate the construction of an additional, general purpose lane in the future. Finally, several adjacent arterial highways, including STH 59 (Greenfield Avenue), STH 100 (Mayfair Road), STH 181 (Glenview Avenue), and Watertown Plank Road, will be reconstructed or expanded to accommodate traffic shifts during construction and to accommodate changes to freeway access.

7. Through the 2011-13 biennium, \$272 million has been provided for the project for preliminary engineering, design, real estate and utility costs, and construction on adjacent arterials. The environmental impact statement (EIS) for the project estimated the total cost of the project at \$1.72 billion. With the \$500 million provided for the 2013-15 biennium under the bill, the total amount provided would increase to \$772 million, or 45% of the EIS cost estimate. The Department indicates that an additional \$640 million would be required in the 2015-17 biennium to keep the project on schedule for completion in 2018.

8. Of the \$500 million provided for the project under the bill, \$302 million (60%) would be provided with bonds, while the remainder would be provided with SEG and FED funds.

Of the \$272 million provided for the project in prior budgets, 30% has been provided with transportation fund-supported, general obligation bonds. As noted in the previous point, an additional \$640 million would be needed in the 2015-17 biennium to keep the project on schedule for completion in 2018. With the SEG and FED funds provided under the bill, the amount of base funding from these "cash" sources going into the 2015-17 biennium would be \$100 million annually. Consequently, if no increases of SEG or FED funds are provided for those years, an additional \$440 million in bonds would be needed in those years (assuming, also, no cost or schedule changes), bringing the total use of bonds on the project to \$823 million, out of total expenditures up through that time of \$1.412 billion, or 58% of the total.

9. As noted above, the bill would use a mix of transportation fund-supported bonds (\$102 million) and general fund-supported bonds (\$200 million) for the Zoo Interchange project. General fund-supported bonds have been authorized for highway projects since 2003-05, typically to offset transportation revenues transferred (or lapsed) to the general fund or appropriated directly for general fund programs. In the 2009-11 and 2011-13 biennia, the amount of bonds authorized for highway projects exceeded the amount of the transfers (there were no transfers in the 2011-13 biennium), producing a net gain to transportation programs and, in effect, reducing the cumulative, net loss to transportation programs. As discussed in LFB Issue Paper #636, the bill would provide a total of \$400.9 million in general fund assistance to the transportation fund (including current law transfers), so that, if approved, the transportation programs would go from a cumulative net loss of \$100.1 million by the end of the 2011-13 biennium, to a net gain of \$300.8 million by the end of the 2013-15 biennium.

10. The Department of Administration indicates that the decision to use general fund-supported bonds for a portion of the Zoo Interchange project costs was made in order to avoid further burdening the transportation fund.

11. Various arguments can be made either in support of, or against, the use of general fund bonds or revenues for transportation programs. Regardless of the relative merits of these arguments, the use of general fund resources for transportation programs reduces the amount of general fund revenues that can be used for other purposes (in the present, or in the case of bonds, in the future), just as the use of transportation fund revenues for general fund programs had the effect of reducing the amount of those revenues available for transportation programs. Some legislators have expressed concern about the precedent of using general fund resources for transportation programs (beyond, for some, what is necessary to "pay back" the transportation fund for earlier transfers). One alternative, consistent with this perspective, would be to replace the general fund-supported bonds for the Zoo Interchange with transportation fund-supported bonds (Alternative 3). This alternative would result in a reduction in GPR debt service of \$1,666,700 in 2014-15, and a corresponding increase in transportation fund debt service in that year. Once fully issued, annual debt service on this amount is estimated at \$14.1 million.

12. The alternative described in the previous point would increase total transportation fund debt service costs in the 2013-15 biennium, as well as in the future. Several legislators have expressed concerns regarding the increasing share of transportation fund revenues devoted to debt service, which would increase from 13.4% in 2011-12 to an estimated 18.5% in 2014-15 under

provisions of the bill (a percentage that would increase to 18.6% in 2014-15 under the alternative described in the previous point). A discussion of the use of bonds for transportation projects, as well as the related debt service and general transportation finance issues, was presented in LFB Issue Paper #636. As that paper noted, debt service and revenue projections done by the Department for the Wisconsin Transportation Finance and Policy Commission demonstrated that even substantial reductions in the use of bonds would not be sufficient to stabilize the debt service percentage over the next several biennia unless transportation fund revenues are increased. In one scenario presented to the Commission, the Department estimated that the debt service percentage would remain above the 2011-12 level through 2022-23 even with no additional bonds authorized during that period. In order to have a significant impact on the bonding level and the debt service percentage, the Legislature would likely have to make substantial changes to the state's transportation finance system.

13. Given the large proposed expenditures for the Zoo Interchange project in the 2013-15 biennium, it would be difficult to proceed on the current project schedule without the use of bonds, or without a substantial modification to the overall transportation budget. Nevertheless, some may decide that a significant reduction in the use of bonds (regardless of the source of debt service payments) is warranted, even if that means project delays and deteriorating highway conditions. One alternative would be to adopt the Department's proposal included in its 2013-15 budget request. In an effort to maintain the use of bonding at close to the 2011-13 level and avoid any transportation fund revenue increases (including additional transfers from the general fund), the Department proposed funding reductions for many transportation programs. With respect to the Zoo Interchange, the Department requested \$350 million for the biennium, indicating that, at this funding level, the completion date would be delayed by two years, to 2020. One alternative would be to modify the bill to reduce the use of bonds by \$150 million for the Zoo Interchange project, resulting in a two-year project delay. There would be several options for how to structure this alternative, using different combinations of GPR- and SEG-supported bonds. For the purpose of this alternative (Alternative 4), the reduction would be taken from the \$200,000,000 in GPR-supported bonds in 2014-15, resulting in a reduction in GPR debt service of \$1,250,000 in that year.

14. Following the release of the Department's budget request, several groups expressed strong opposition to a delay of the interchange work. In particular, several representatives of the health care businesses and institutions located north of the interchange expressed concern regarding the negative impacts that a delay would have on this area. In addition, although the Department included the delay in its request, several negative consequences of that decision were noted. These consequences include possible delays in expansion projects at the Milwaukee Regional Medical Center and the UW-Milwaukee Innovation Research Park. The Department also estimated that the delay would increase interim maintenance costs by \$5 million to \$8 million, and the impact of inflation, due to the delay, was estimated to increase the nominal cost by \$40 million.

15. Because of the large size of the construction lets for the interchange core, and for various reasons related to construction staging, the Department indicates that few other intermediary options are available for shifting work outside the biennium. The Department has indicated, however, that \$14 million could be shifted from the first phase of the core interchange project to a second phase, scheduled for the 2015-17 biennium. The administration included this shift in its

proposal to address the projected deficit in the transportation fund (Alternative 2b). [Since the SEG appropriation is less than \$14 million in 2014-15, the reduction could be taken from the FED appropriation and corresponding SEG and FED adjustments made in the state highway rehabilitation program.]

16. The Committee should be aware that a delay of the Zoo Interchange project is possible depending upon the outcome of a pending lawsuit. A coalition of Milwaukee community groups has asked the federal court to stop the project, and have filed for a preliminary injunction to that effect. The plaintiffs make several points in support of the motion, including: (a) that the Department and the Federal Highway Administration, as well as the designated appointees in charge of those agencies (the "defendants") did not adequately consider all reasonable alternatives to address congestion, including alternatives that combine transit improvements with a non-expansion freeway reconstruction project; and (b) that the defendants failed to adequately consider the negative effects of the project, including the indirect and cumulative impacts that freeway expansion has on city residents and residential patterns, particularly in light of concurrent decreases in transit service. The Department has asked the court to dismiss the lawsuit, claiming that the allocation of funding between freeway projects and transit is a resource allocation decision made by the Legislature and that all of the required environmental procedures were followed in the preparation of the environmental impact statement. The case is expected to proceed this summer, although the precise timeline of the ultimate decision is not known.

ALTERNATIVES

1. Approve the Governor's recommendation to: (a) authorize \$200,000,000 in general fund-supported, general obligation bonds for southeast Wisconsin freeway megaprojects and authorize \$107,000,000 in transportation fund-supported, general obligation bonds for the Zoo Interchange and I-94 North-South freeway projects; (b) increase funding by \$1,666,700 GPR and \$3,717,000 SEG in 2014-15 to reflect estimated debt service payments; and (c) decrease base funding by \$1,076,300 SEG in 2013-14 and \$37,576,300 SEG in 2014-15 in the southeast Wisconsin freeway megaprojects appropriation.

2. Modify the Governor's recommendation by adopting one or both of the following alternatives, related to the administration's recommendation for addressing a projected transportation fund deficit:

a. Reduce funding by \$15,750,000 SEG in 2013-14 and \$250,000 SEG and \$3,000,000 FED in 2014-15 for the I-94 North-South project to reflect a delay for work on the Ryan Interchange, and replace \$3,000,000 SEG appropriated for the state highway rehabilitation program with \$3,000,000 FED for that program in 2014-15.

| ALT 2a | Change to Bill Funding |
|---------------|-----------------------------------|
| SEG | - \$19,000,000 |

b. Reduce funding by \$14,000,000 FED in 2014-15 for the Zoo Interchange project and replace \$14,000,000 SEG in the state highway rehabilitation program with \$14,000,000 FED for that program in 2014-15.

| ALT 2b | Change to Bill Funding |
|---------------|-----------------------------------|
| SEG | - \$14,000,000 |

3. Replace \$200,000,000 in general fund-supported, general obligation bonds for the Zoo Interchange with \$200,000,000 in transportation fund-supported, general obligation bonds and change the debt service estimate to reflect this change (-\$1,666,700 GPR and +\$1,666,700 SEG in 2014-15).

| ALT 3 | Change to Bill Funding |
|--------------|-----------------------------------|
| GPR | - \$1,666,700 |
| SEG | <u>1,666,700</u> |
| Total | \$0 |

4. Reduce the amount of general fund-supported, general obligation bond authorization allocated to the Zoo Interchange project by \$150,000,000 and reduce funding by \$1,250,000 GPR in 2014-15 to reflect a reduction in debt service payments, resulting in a two-year delay in the completion of the project. [This alternative could also be structured to take a portion of the reduction from the authorization of transportation fund-supported bonds.]

| ALT 4 | Change to Bill Funding |
|--------------|-----------------------------------|
| BR | - \$150,000,000 |
| GPR | <u>- 1,250,000</u> |
| Total | - \$151,250,000 |

5. Modify the Governor's recommendation as follows to delete all funding for one or both southeast Wisconsin freeway megaprojects:

a. Reduce bonds and funding to eliminate funding for the Zoo Interchange project, as follows: (a) \$7,946,900 SEG annually; (b) \$90,053,100 FED in 2013-14 and \$92,053,100 FED in 2014-15; (c) \$102,000,000 in transportation fund-supported, general obligation bonds; (d) \$200,000,000 in general fund-supported, general obligation bonds; and (e) \$3,531,200 SEG and \$1,666,700 GPR in 2014-15 for associated debt service.

| ALT 5a | Change to Bill Funding |
|---------------|-----------------------------------|
| GPR | - \$1,666,700 |
| SEG | - 19,425,000 |
| FED | - 182,106,200 |
| BR | <u>- 302,000,000</u> |
| Total | - \$505,197,900 |

b. Reduce bonds and funding to eliminate funding for the I-94 North-South project, as follows: (a) \$36,750,000 SEG and \$5,000,000 FED in 2013-14 and \$250,000 SEG and \$3,000,000 FED in 2014-15; (b) \$5,000,000 in transportation fund-supported, general obligation bonds; and (c) \$173,100 SEG in 2014-15 for associated debt service.

| ALT 5b | Change to Bill Funding |
|---------------|-----------------------------------|
| SEG | - \$37,173,100 |
| FED | - 8,000,000 |
| BR | <u>- 5,000,000</u> |
| Total | - \$50,173,100 |

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