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Major Highway Development Funding (DOT -- State Highway Program)

[LFB 2013-15 Budget Summary: Page 463, #5]

CURRENT LAW

The major highway development program is responsible for the expansion of existing highways, construction of new highways, and certain high-cost highway rehabilitation projects. With certain exceptions, capacity expansion projects are considered major highway projects if they have an estimated cost exceeding $32 million and involve one of the following: (a) the addition of one or more lanes at least five miles in length to an existing highway; (b) construction of a new highway 2.5 miles or more in length; (c) relocation of 2.5 miles or more of existing roadway; or (d) the improvement of 10 miles or more of an existing divided highway to freeway standards. Highway rehabilitation projects are considered major highway projects if they have an estimated cost exceeding $80 million. Exceptions to these standards are provided for southeast Wisconsin freeway megaprojects (exceeding $535 million), high-cost bridge projects (exceeding $150 million), and interstate bridge projects (crossing a state boundary, with the state's share over $100 million).

Major highway projects that meet the capacity expansion thresholds must be enumerated in the statutes before the Department of Transportation (DOT) can begin construction. Potential projects are considered for enumeration by the Transportation Projects Commission (TPC), a body consisting of the Governor, as chair, five senators, five representatives, three public members, appointed by the Governor, and the DOT Secretary (a nonvoting member). The Department submits potential projects to the TPC for consideration and also submits a recommendation of which of those projects should be advanced for enumeration. The TPC then makes a recommendation to the Governor and Legislature of which projects should be enumerated. Major highway projects that meet the definition based on the high-cost threshold, but not the capacity expansion thresholds, must be approved by the TPC prior to construction, but do not need to be enumerated in the statutes.

The program is funded with a combination of SEG and FED funds, plus transportation revenue bonds. In addition, the 2011-13 budget provided transportation fund-supported, general obligation bonds for the program. Total base funding for the program, plus the general obligation bonds, is $371,656,800, which includes $110,671,700 SEG, $78,263,500 FED, $159,721,600 SEG-S (transportation revenue bonds), and $23,000,000 in general obligation bonds.

GOVERNOR

Decrease funding by $23,385,700 SEG annually and increase funding by $42,594,400 SEG-S (transportation revenue bonds) annually for the major highway development program.

DISCUSSION POINTS

1. Relative to the 2012-13 SEG, SEG-S, and FED appropriation base, the bill provision discussed in this paper would increase funding for the major highway development program by $19,208,700 annually. However, since total funding for the program in 2012-13 includes $23,000,000 in transportation fund-supported, general obligation bonding, and the bill would not authorize new bonding to continue the use of these bonds for the program, the proposed funding would be lower in both years of the biennium than the actual level of funding available in 2012-13. Relative to the SEG, SEG-S, and FED base with general obligation bonds included, this bill provision would decrease funding by $3,791,300 annually, or by 1.0%. The following table shows the total funding for the program under the bill, relative to the 2012-13 appropriation base, plus the transportation fund-supported, general obligation bonds. The amounts shown include the impact of the funding adjustments discussed in this paper, plus standard budget adjustments (-$18,300 SEG annually).

	2012-13 Base	Governor	
Fund	Plus Bonding	2013-14	2014-15
SEG	$110,671,700	$87,267,700	$87,267,700
SEG-S	159,721,600	202,316,000	202,316,000
FED	78,263,500	78,263,500	78,263,500
SEG-Supported Bonds	23,000,000	0	0
Total	$371,656,800	$367,847,200	$367,847,200

2. Although funding for the major highway development program would be reduced by $7.6 million over the biennium, relative to the 2012-13 funding level, the impact of that reduction on the current project schedule would likely be minor in the near term. Based on the Department's financial status reports for the program, project costs have generally not been increased due to inflation during the past few years. This suggests that, despite the slight decrease in funding, the purchasing power of the program would remain sufficient to maintain the current schedule. Over time, the Department may have to adjust the current schedule to account for the decrease if the

proposed funding level is maintained at the same nominal level and project costs increase over current estimates due to inflation.

3. The following table shows the schedule and remaining cost of currently-enumerated projects, as of Department's latest financial status report for the program (February, 2013). The final column shows the final year of a major letting for the program (over $5 million), although some work may continue after that point and some auxiliary work remains unscheduled for certain projects. The table does not show projects for which work is substantially complete, but the sum of remaining work on these projects, including unscheduled work, is shown at the bottom.

Schedule and Remaining Cost of Currently-Enumerated Major Highway Projects
($ in Millions)

Highway	Project Segment	Counties	Remaining Cost	Final Let Year
USH 10/441	Winnebago CTH CB to Oneida Street	Calumet & Winnebago	$405.3	2019
USH 12	I-90/94 to Ski Hi Road	Sauk	110.8	2016
USH 14	Viroqua to Westby	Vernon	43.0	2018
STH 15	STH 76 to New London	Outagamie	118.9	2018
USH 18	Prairie du Chien to STH 60	Crawford	13.7	2016
USH 18/151	Verona Road/Madison Beltline	Dane	171.9	2018
STH 23	STH 67 to USH 41	Sheboygan & Fond du Lac	118.3	2017
STH 26	Janesville to Watertown	Rock, Jefferson & Dodge	89.2	2014
STH 38	Racine CTH K to Oakwood Road	Milwaukee & Racine	124.3	2021
I-39/90	Illinois State Line to USH 12/18	Dane & Rock	822.6	2019
USH 41	De Pere to Suamico & STH 26 to Breezewood Lane	Brown & Winnebago	627.5	2016
USH 53	La Crosse Corridor	La Crosse	138.1	2021
STH 81/213	Beloit Bypass	Rock	9.3	Unscheduled
Other Work Associated With Projects That Are Substantially Complete			126.5	
		Total	$2,919.4	

4. In addition to the currently-enumerated projects, the Department is currently conducting studies on 10 additional projects. Once the study of a potential project has been completed, the Department may recommend that the project be reviewed by the TPC. After reviewing the project, the TPC may recommend the project for enumeration if it determines that the project, plus all currently enumerated projects, can be started within six years of the date of enumeration under the existing budget provided for the program. [The TPC can also recommend a project that does not meet the six-year requirement if it also recommends a financing plan necessary to start the project within that time.] Statutory enumeration requires the enactment of legislation, which, in the past, has been done as part of the biennial budget bill. The TPC did not meet in 2012 to consider new projects for enumeration and the Governor's bill does not include any new projects.

5. The following table shows the list of projects currently under study. Two of these projects (I-43 in Milwaukee and Ozaukee County and I-94 in Milwaukee County) are on the

southeast Wisconsin freeway system. If the cost of either of these projects exceeds the threshold for a southeast Wisconsin freeway megaproject (currently $535 million, indexed annually to construction inflation), then it would become the responsibility of that program.

Potential Major Highway Projects Currently Under Study

Highway	Project Segment	Counties
USH 8	STH 35 to USH 53	Barron & Polk
STH 11/USH 14	Janesville to I-43	Rock & Walworth
USH 12	Fort Atkinson Bypass	Jefferson
USH 12	USH 14 to CTH N	Dane
I-39/90	Madison to Wisconsin Dells	Columbia, Dane, & Sauk
I-43	Silver Spring Drive to STH 60	Milwaukee & Ozaukee
USH 51	Stoughton to McFarland	Dane
USH 51	USH 12 to STH 19	Dane
I-94	25th Street to 70th Street	Milwaukee
I-94	USH 12 to STH 65	St. Croix

6. Due in part to concerns over growing transportation debt service, and the overall stability of the state's method of financing transportation programs, the 2011-13 budget created the Transportation Finance and Study Commission to examine these issues and make recommendations. The Commission recommended a series of funding increases for state highway and local transportation assistance programs and several tax and fee increases to generate additional revenues for the transportation fund.

7. The Department presented an analysis of major highway development program funding and project schedules to the Commission during the course of the Commission's work in 2012. That analysis determined the time needed to complete the currently-enumerated projects, plus five additional projects under study, under different funding scenarios. [The five additional projects were not individually specified.] If the 2012-13 funding level were maintained those projects would be completed in 2030. The Commission's final report recommended an annual funding increase of $100 million for the program, which would be sufficient to finish all the projects by 2024.

8. For the purposes of the Department's funding and project schedule scenarios, the Hoan Bridge project was included as a major highway project. Although the bill would not provide a $100 million increase for the major highway development program, as recommended by the Commission, it would fund the Hoan Bridge project separately. It is possible, therefore, that the bill's funding level would allow the Department to meet the project schedule that the Commission envisioned, if an additional funding increase is provided in the 2015-17 biennium.

9. For various reasons, it may be unrealistic to provide and maintain the level of funding for the major highway development program recommended by the Transportation Finance and Policy Commission. First, the bill would not increase transportation taxes or fees in accordance with the Commission's recommendations, and the Governor and several legislators have expressed opposition to any increases. In order to sustain the funding level recommended by the Commission, additional revenues would be required on an ongoing basis. Second, several members of the

Committee have expressed concerns over either the level of bonds in the bill, or the use of general fund revenues for transportation fund purposes, or both. Finally, as a result of a reestimate of transportation fund revenues (and reflecting the Committee's earlier actions), the transportation fund is projected to end the biennium with a deficit of $54.3 million. Under these circumstances, and if legislators do not desire a substantial change to the state's system for financing transportation projects, it will be necessary to significantly reduce funding for transportation programs now and in the future to maintain a balance between revenues and expenditures, and to avoid increasing bond debt service.

10. At the Committee's agency briefing on the bill, a member asked the Department Secretary for recommendations on how to reduce the use of bonds in the bill by $200 million. In his written response, the Secretary indicated that a reduction of that magnitude would be best taken in the major highway development program. He noted that reductions in funding for the Hoan Bridge project or the Zoo Interchange project would result in delays having significant, negative safety and economic impacts, while reductions to the state highway rehabilitation program would be inconsistent with the goal of placing priority on system preservation. If the Committee decides that a reduction of that magnitude is necessary, then it could consider alternatives that would follow the Secretary's recommendation to make that reduction in the major highway development program.

11. The Secretary indicated a reduction of $200 million for the major highway development program would result in several project delays. The extent of the delays would depend upon whether the funding level proposed under the bill were restored in the 2015-17 biennium, or if the program would continue at those reduced levels. The following table shows the anticipated delays resulting from a one-time, $200 million reduction.

Highway	Project Segment	County	Completion Delay
USH 10/441	Winnebago CTH CB to Oneida Street	Calumet/Winnebago	Two-year delay
USH 12	I-90/94 to Ski Hi Road	Sauk	Two-year delay
STH 15	STH 76 to New London	Outagamie	One-year delay
USH 18/151	Verona Road, Stage 1	Dane	One-year delay
USH 18/151	Verona Road, Stage 2	Dane	Two-year delay
STH 23	STH 67 to USH 41	Sheboygan/Fond du Lac	One-year delay

12. If funding in the 2015-17 biennium were also reduced by $200 million, relative to the bill's proposed funding level, the I-39/90 project in Dane and Rock counties would also be delayed by one year. These project delays are based on the assumption, however, that funding would be restored to the Governor's recommended level (no additional reductions) in the 2017-19 biennium. If the reduction is ongoing, the Secretary indicated that the existing projects would not be completed until 2025, and current projects under study, but not yet enumerated, would be significantly delayed.

13. The Department's 2013-15 budget request included funding reductions for many programs, with the goal of providing funding for the Hoan Bridge project and funding increases for the state highway routine maintenance program without increasing transportation taxes and fees,

and while maintaining the use of bonding at near the 2011-13 level. The largest funding decrease was for the major highway development program, which would have been cut by $269.5 million over the biennium. In addition to the project delays associated with a $200 million reduction, the Department indicated that the USH 14 project between Viroqua and Westby in Vernon County would be delayed by one year. Also, with that reduction, some work on the USH 41 project in Brown and Winnebago counties and on the I-39/90 project in Dane and Rock counties would be delayed, although the current completion dates for those projects could be maintained if the base funding level were restored after the 2013-15 biennium.

14. The Governor's budget avoided the delays in DOT's budget request by increasing the use of bonds and by making transfers or other use of revenues from the general fund and the petroleum inspection fund. If there is a desire to reduce the use of bonding, the Committee could adopt an alternative to reduce bonds by $200,000,000, consistent with the scenario presented in the Secretary's letter, or by $269,500,000, consistent with the scenario presented in the Department's budget request. With a $200,000,000 reduction (Alternative 2), the SEG-S appropriation for the program would be reduced by $100,000,000 annually, and transportation revenue bond debt service would be reduced by $1,165,500 in 2013-14 and $8,202,700 in 2014-15 (an increase in net transportation fund revenues). With a reduction of $269,500,000 (Alternative 3), the SEG-S appropriation would be reduced by $134,750,000 SEG-S annually, and transportation revenue bond debt service would be reduced by $1,570,500 in 2013-14 and $11,053,100 in 2014-15.

15. As noted above, under the provisions of the bill (as modified by the Committee in earlier actions), the transportation fund is projected to end the biennium with a $54.3 million deficit. In response to the projected deficit, the administration recommended a series of funding reductions to achieve a positive balance in the transportation fund. For the major highway development program, the recommendation called for a reduction of $7,300,000 in 2013-14 (Alternative 4).

ALTERNATIVES

1. Approve the Governor's recommendation to decrease funding by $23,385,700 SEG annually and increase funding by $42,594,400 SEG-S annually for the major highway development program, to provide a 1% decrease in funding annually relative to the 2012-13 program base, including the transportation fund-supported, general obligation bonds provided for the program in that year.

2. Reduce funding by $100,000,000 SEG-S annually and reduce revenue bond authorization by $200,000,000 for the program, to reduce funding and the use of bonds for the program. Increase transportation fund revenues by $1,165,500 in 2013-14 and $8,202,700 in 2014-15 to reflect a reduction in debt service associated with the reduction in the bond authorization.

ALT 2	Change to Bill	
	Revenue	Funding
SEG-S		- $200,000,000
SEG-REV	$9,368,200	
BR	- 200,000,000	

3. Reduce funding by $134,750,000 SEG-S annually and reduce revenue bond authorization by $269,500,000 for the program, to reduce funding and the use of bonds for the program. Increase transportation fund revenues by $1,570,500 in 2013-14 and $11,053,100 in 2014-15 to reflect a reduction in debt service associated with the reduction in the bond authorization.

ALT 3	Change to Bill	
	Revenue	Funding
SEG-S		- $269,500,000
SEG-REV	$12,623,600	
BR	- 269,500,000	

4. Reduce funding by $7,300,000 SEG in 2013-14 to adopt the administration's recommendation, with respect to this program, for eliminating a projected transportation fund deficit.

ALT 4	Change to Bill
	Funding
SEG	- $7,300,000

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