



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #656

Highway Project Design Inventory Requirement (DOT -- State Highway Program)

[LFB 2013-15 Budget Summary: Page 466, #11]

CURRENT LAW

The Department of Transportation is required, by July 1, 2014, to have a sufficient number of completed highway project designs in both the state highway rehabilitation program and the major highway development program such that the estimated cost of projects with completed designs equals at least 65% of the annual funding in each program. Once reaching this level, the Department is required to maintain an inventory of completed designs equal to or above that threshold continuously thereafter.

GOVERNOR

Reduce the required inventory of completed highway project designs from 65% to 20% of the annual funding for the state highway rehabilitation and major highway development programs.

DISCUSSION POINTS

1. The completed project design inventory requirement was created by the 2009-11 biennial budget. Advocates of the provision argued that it was necessary to allow the Department to quickly increase construction activity in response to a sudden increase in funding, such as was provided by the federal economic stimulus act in 2009.

2. In its biennial budget request, the Department proposed a decrease in the inventory percentage to 20%, on the grounds that no substantial increases in funding for highway

improvements were likely to occur in the near future. The Department indicates that a 20% inventory requirement would result in completed and ready plans totaling \$240 million in construction cost, and argues that this provides sufficient flexibility in managing the construction program.

3. The Department indicated in its budget request that reducing the inventory requirement to 20% would allow the existing inventory of designs to be drawn down over a two-year period, resulting in a one-time reduction in design engineering costs, estimated at \$50 million to \$70 million in the biennium. Since that time, the Department has reevaluated this estimate in light of the progress that has been made on meeting the 65% requirement, and indicates that the savings, at least in the short-run, would be less. The Department has continued to initiate project designs with the intent of meeting the 65% requirement by July 1, 2014, in the event the threshold is not reduced to 20%. The Department indicates that designs that have already been initiated would not be suspended in the event that the change is approved, to avoid disrupting work already underway. This means that the drawdown would occur over a longer period of time. The Department now estimates the reduction in design engineering costs at \$8 million in 2013-14, \$11 million in 2014-15, and \$11 million in 2015-16. Any additional savings, which would occur within the state highway rehabilitation program, have not been estimated past 2015-16.

4. The bill would not reduce appropriations for the state highway rehabilitation or major highway development programs to reflect savings associated with a reduction in design engineering costs. Consequently, any savings generated would be reallocated to highway construction or other program costs in those programs. In light of a projected deficit in the transportation fund, the Committee could decide that a reduction to the SEG appropriation for the state highway rehabilitation program is warranted. One alternative would be to reduce that appropriation by the amount of the projected savings associated with the change to the design inventory requirement, a total reduction of \$19,000,000 over the biennium (Alternative 2).

5. The Committee could decide to reduce the appropriation for state highway rehabilitation by a smaller amount, allowing some of the design engineering savings to be reallocated to construction projects. An alternative would be to reduce the SEG appropriation for the state highway rehabilitation program in accordance with the administration's plan for eliminating a projected deficit in the transportation fund. In response to revenue reestimates that projected a biennium-ending deficit of \$63.5 million (the deficit has since been reduced to \$54.3 million based on the Committee's actions to date), the administration recommended a series of appropriation reductions to achieve a positive, biennium-ending balance. With respect to the state highway rehabilitation program, the plan recommends a reduction of \$12,300,000 in 2013-14, while leaving funding in 2014-15 at the same level proposed under the bill (Alternative 3). Relative to Alternative 2, this would allow \$6.7 million of the projected, biennial savings of \$19.0 million to be reallocated to projects.

ALTERNATIVES

1. Approve the Governor's recommendation to reduce the required inventory of completed highway project designs from 65% to 20% of the annual funding for the state highway

rehabilitation and major highway development programs.

2. Reduce the appropriation for state highway rehabilitation by \$8,000,000 SEG in 2013-14 and \$11,000,000 SEG in 2014-15 to reflect estimated savings associated with a reduction in design engineering work done during the biennium.

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

3. Reduce the appropriation for state highway rehabilitation by \$12,300,000 SEG in 2013-14, the amount of the reduction recommended by the administration to eliminate a projected transportation fund deficit.

ALT 3	Change to Bill Funding
SEG	- \$12,300,000

4. Delete provision.

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