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Joint Committee on Finance

Paper #651

Major Highway Development Program (Transportation -- State Highway Program)

[LFB 2015-17 Budget Summary: Page 446, #3]

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 \$33.4 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 \$83.5 million. Exceptions to these standards are provided for southeast Wisconsin freeway megaprojects (exceeding \$558.5 million), high-cost bridge projects (exceeding \$150 million), and interstate bridge projects (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). DOT 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 2013-15 biennial budget act authorized \$404.6 million in transportation fund-supported revenue bonds and appropriated \$323.8 million in state and federal funds for major highway development

projects.

GOVERNOR

Reduce funding by \$59,949,900 SEG annually and increase funding by \$109,949,900 SEG-S (transportation revenue bond expenditure authority) annually for the major highway development program, to provide a net increase of \$50,000,000 annually in 2015-17.

DISCUSSION POINTS

Funding Level

1. Each of the alternatives presented in this paper would rely on the use of bonds for the major highway development program. The Committee could decide to vary the mix of funds used in any of these alternatives and may also elect to provide increases or reductions to the other state highway program components based on these decisions.

2. Table 1 shows the total program resources provided to the major highway development program since the 2005-07 biennium (including FED, SEG, and bonds).

TABLE 1

**Major Highway Development -- Total Program Resources
(In Millions)**

| <u>Biennium</u> | <u>All Funds</u> |
|-----------------|------------------|
| 2005-07 | \$565.6 |
| 2007-09 | 695.9 |
| 2009-11 | 713.6 |
| 2011-13 | 743.6 |
| 2013-15 | 728.4 |
| 2015-17* | 836.1 |

*Reflects the Governor's 2015-17 budget recommendation.

3. The alternatives discussed in this paper would provide the following levels of funding: (a) Alternative #A1 would provide an increase of \$50 million annually for total funding of \$418 million annually, as specified under the Governor's budget recommendations; (b) Alternative #A2, relative to the bill, would decrease funding by \$150 million annually and would provide total resources equal to \$268 million annually (compared to the base year, this would be an annual reduction of \$100 million); (c) Alternative #A3 would reduce the funding level in the bill by \$100 million annually and would provide total program funding equal to \$318 million annually (compared to the base year, this would be equal to a reduction of \$50 million annually); and (d)

Alternative #A4 would provide base year funding of \$368 million annually (compared to the bill, this would be equal to a reduction of \$50 million annually).

4. Table 2 shows the schedule and remaining costs of currently-enumerated projects, as of the Department's latest financial status report for the program (February, 2015). 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.

TABLE 2

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

| <u>Highway</u> | <u>Project Segment</u> | <u>Counties</u> | <u>Remaining Cost*</u> | <u>Final Let Year</u> |
|----------------|---|---------------------------------|------------------------|-----------------------|
| USH 10/441 | Winnebago CTH CB to Oneida Street | Outagamie, Calumet, & Winnebago | \$425.3 | 2019 |
| USH 12 | I-90/94 to Ski Hi Road | Sauk | 104.6 | 2018 |
| STH 15 | STH 76 to New London | Outagamie | 132.0 | 2020 |
| USH 18 | Prairie du Chien to STH 60 | Crawford | 18.7 | 2016 |
| USH 18/151 | Verona Road/Madison Beltline** | Dane | 133.0 | 2018 |
| STH 23 | STH 67 to USH 41 | Sheboygan & Fond du Lac | 117.9 | 2018 |
| STH 38 | Racine CTH K to Oakwood Road | Milwaukee & Racine | 123.9 | Unscheduled |
| I-39/90 | Illinois State Line to USH 12/18 | Dane & Rock | 969.4 | 2020 |
| USH 41 | De Pere to Suamico & STH 26 to Breezewood Lane | Brown & Winnebago | 243.8 | 2017 |
| STH 50 | I-94 to 43rd Avenue** | Kenosha | 93.0 | 2023 |
| USH 53 | La Crosse Corridor | La Crosse | 137.9 | Unscheduled |
| STH 81/213 | Beloit Bypass | Rock | 9.7 | Unscheduled |
| | Other Work Associated With Projects That Are Substantially Complete | | <u>98.2</u> | |
| | Total | | \$2,607.4 | |

*With the exception of the STH 81/213 and the STH 38 projects, estimates for which are from DOT's August, 2014, report, cost estimates are from DOT's February, 2015, report on the major highway program.

**Projects approved by the TPC (as opposed to being enumerated in statute).

5. Table 3 shows the Governor's recommendation, which would result in an increase of \$50 million annually for the major highway development program. Relative to base year funding, the amounts shown in the table, which include standard budget adjustments of \$74,900 SEG annually, represent an increase of 13.6% in 2015-16, with no additional increase for 2016-17.

TABLE 3

**Funding for the Major Highway Development Program
(Under AB 21/SB 21, Governor's Recommendation)**

| <u>Fund</u> | <u>2014-15 Base</u> | <u>Governor</u> | |
|-----------------------|---------------------|-------------------|-------------------|
| | | <u>2015-16</u> | <u>2016-17</u> |
| SEG | \$87,375,000 | \$27,500,000 | \$27,500,000 |
| SEG-S (Revenue Bonds) | 202,316,000 | 312,265,900 | 312,265,900 |
| FED | <u>78,263,500</u> | <u>78,263,500</u> | <u>78,263,500</u> |
| Total | \$367,954,500 | \$418,029,400 | \$418,029,400 |

6. This level of funding would provide an amount equal to what DOT requested in its biennial budget request for this program and would allow completion of major highway development projects according to the current schedule for all projects enumerated or approved based on the six-year highway plan.

7. 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. Among these recommendations was a funding level equal to \$471.6 million annually for the major highway development program.

8. The bill would increase the use of bonds for the major highway development program from a base level of \$202.3 million to \$312.3 million annually, for total bonding of \$624.5 million. The estimated debt service in the biennium on that bonding would be \$8.7 million in 2015-16 and \$31.0 million in 2016-17 (as reestimated in LFB Paper 630). Due to the time that exists between when projects are approved for funding and when the bonds are actually issued, the full, annualized debt service on the proposed bonds would not be paid during the biennium. When fully issued, the annualized debt service to be paid from transportation fund revenues associated with the bill's recommended bonding level would be an estimated \$44.7 million.

9. Due to concerns about the transportation fund's ongoing revenue issues and the extensive use of long-term borrowing for the highway program included in the bill, revenue increases or program reductions, or a combination of both, may have to be made. Any large reductions in bonding would require significant reductions to the highway-related programs, for which the Governor is recommending nearly \$1.3 billion in bonding.

10. Given these factors, and if the Committee decides that highway program reductions should be made, some have argued that the state should ensure the continuation of individual projects with relatively more significant implications for the economic condition of the state. As a part of a budgeting exercise for members of the Committee, the DOT Secretary was asked how, if

given the choice, the Department would distribute a \$500 million reduction to the state highway program in 2015-17 from the level of funding provided under the Governor's budget recommendations. In this instance, the Secretary indicated that the Department would plan to fund the Zoo Interchange project (a southeast Wisconsin freeway megaproject) at the level provided in the Governor's budget recommendation (\$623.2 million in 2015-17). This project is on the busiest segment of interstate highway in the state and is a hub for freight, businesses, and hospitals (as well as those commuting to and from the City of Milwaukee). This level of funding would allow the project to remain on schedule for completion by the end of 2018. If such a cut were made to the highway program, DOT would prefer to reduce funding by \$150 million annually to the major highway development program and by \$100 million annually to the state highway rehabilitation program. This would cut both programs by \$100 million annually compared to the base year.

11. If the Committee was to make a \$150 million annual program reduction to the major highway development program, as discussed under the possible reduction scenario described above, it could opt to reduce the bonding authorization provided under the bill. This alternative would reduce bonding under the bill by \$300 million and provide the program with total funding of \$268 million annually. Relative to the bill, estimated debt service payments would be reduced by \$4.2 million in 2015-16 and \$14.9 million in 2016-17, with longer-term savings of \$21.5 million annually. [Alternative #A2]

12. Table 4 shows the major highway development funding under Alternative #A2. Relative to the base year funding, the amounts shown in the following table, which include standard budget adjustments of \$74,900 SEG annually, represent an annual decrease of -27.2%.

TABLE 4
Funding for the Major Highway Development Program
(Under \$150 Million Annual Reduction to the Bill)

| <u>Fund</u> | <u>2014-15 Base</u> | <u>Alternative #A2</u> | |
|-----------------------|---------------------|------------------------|-------------------|
| | | <u>2015-16</u> | <u>2016-17</u> |
| SEG | \$87,375,000 | \$27,500,000 | \$27,500,000 |
| SEG-S (Revenue Bonds) | 202,316,000 | 162,265,900 | 162,265,900 |
| FED | <u>78,263,500</u> | <u>78,263,500</u> | <u>78,263,500</u> |
| Total | \$367,954,500 | \$268,029,400 | \$268,029,400 |

13. In comments included as part of the same reduction scenario, the Secretary indicated that the level of program funding shown in Table 4 would result in a number of project delays. Under the Department's exercise, the estimated project delays assumed that in future biennia (after 2015-17) \$50 million annually would be restored to the program to return it to its current base funding level and that a corresponding \$50 million annual reduction would be made to the southeast Wisconsin freeway megaprojects program. Table 5 shows the list of anticipated project delays based on this level of funding.

TABLE 5

**Anticipated Project Delays from \$150 Million
Annual Reduction to AB 21/SB 21**

| <u>Highway</u> | <u>Project Segment</u> | <u>Counties</u> | <u>Completion Delay</u> |
|----------------|--------------------------------------|------------------------------------|-------------------------|
| USH 10/441 | Winnebago CTH CB to Oneida Street | Outagamie, Calumet, & Winnebago | Two Years |
| STH 15 | STH 76 to New London | Outagamie | Two Years |
| USH 18/151 | Verona Road/Madison Beltline | Dane | Two Years |
| STH 23 | STH 67 to USH 41 | Sheboygan & Fond du Lac | One Year |
| I-39/90 | Illinois State Line to USH 12/18 | Dane & Rock | Two Years |

14. Related to this list of potential delays, some have contended that communities in the vicinity of delayed major highway projects on which substantial construction activities have begun could experience negative effects from the project delays that would occur at this level of funding. Generally, major highway projects tend to be focused on highway facilities in areas where the Department has determined that traffic volume and roadway designs require expansion in order to increase safety and lessen congestion. In addition, delaying projects that have already been started would generally result in longer periods during which these highway segments would be under construction. Because of factors like temporary roadway alignments, changing signage, and active work areas, highway construction zones are generally less safe than highway segments that have been completed according to the final, intended facility design. Therefore, some have argued that if any reduction is made to the major highway development program, all state highway programs should experience some level of decreased program budget.

15. If the Committee believes that a \$150 million annual reduction to this program's funding is too large, but feels a smaller program reduction is appropriate, it could decide to implement a \$100 million annual cut (\$50 million annually compared to the base funding level). [Alternative #A3] This alternative would reduce estimated debt service payments by \$2.8 million in 2015-16 and \$9.9 million in 2016-17, with longer-term savings of \$14.3 million annually. Table 6 shows the major highway development funding under this alternative. Compared to base year funding, the amounts shown in Table 6, which include standard budget adjustments of \$74,900 SEG annually, represent an annual decrease of -13.6%.

TABLE 6**Funding for the Major Highway Development Program
(Under \$100 Million Annual Reduction to the Bill)**

| <u>Fund</u> | <u>2014-15 Base</u> | <u>Alternative #A3</u> | |
|-----------------------|---------------------|------------------------|-------------------|
| | | <u>2015-16</u> | <u>2016-17</u> |
| SEG | \$87,375,000 | \$27,500,000 | \$27,500,000 |
| SEG-S (Revenue Bonds) | 202,316,000 | 212,265,900 | 212,265,900 |
| FED | <u>78,263,500</u> | <u>78,263,500</u> | <u>78,263,500</u> |
| Total | \$367,954,500 | \$318,029,400 | \$318,029,400 |

16. If program funding reductions of \$100 million annually were made, DOT has indicated that projects would likely be delayed by the lengths of time indicated in Table 7. These delays are based on the assumption that funding would remain at this level in future biennia.

TABLE 7**Anticipated Project Delays from \$100 Million
Annual Reduction to AB 21/SB 21**

| <u>Highway</u> | <u>Project Segment</u> | <u>Counties</u> | <u>Completion Delay</u> |
|----------------|-----------------------------------|---------------------------------|-------------------------|
| USH 10/441 | Winnebago CTH CB to Oneida Street | Outagamie, Calumet, & Winnebago | One Year |
| STH 15 | STH 76 to New London | Outagamie | One Year |
| USH 18/151 | Verona Road/Madison Beltline | Dane | One Year |
| STH 23 | STH 67 to USH 41 | Sheboygan & Fond du Lac | One Year |
| I-39/90 | Illinois State Line to USH 12/18 | Dane & Rock | Two Years |

17. If base funding of \$368 million, plus standard budget adjustments, were provided for this program (a \$50 million annual decrease from the bill's funding level), DOT anticipates a one-year delay in the completion of the I-39/90, Illinois State Line to USH 12/18, project. [Alternative #A4] Under this alternative, estimated debt service payments would be reduced by \$1.4 million in 2015-16 and \$5.0 million in 2016-17, with longer-term savings of \$7.2 million annually.

Enumeration of Projects

18. In addition to the currently-enumerated projects, the Department is currently conducting studies on 11 additional projects. Once the study of a potential project has been completed, the Department may recommend that the project be reviewed by the Transportation Projects Commission (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 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 bills.

19. In December, 2014, the TPC approved the STH 50 project in Kenosha County under the related statutory cost threshold provision for major highway projects discussed in the "Current Law" section of this paper. Because the project did meet any of the capacity expansion thresholds, TPC approval is sufficient for the Department to proceed with the project and it does not need to be enumerated by the Legislature. However, at the Department's request, the TPC also recommended two additional major highway projects for enumeration: (a) the I-43 project between Silver Spring Drive and STH 60 in Milwaukee and Ozaukee counties, which has an estimated cost of \$448 million [Alternative #B1a]; and (b) the I-94 project between USH 12 and 130th Street in St. Croix County, which has an estimated cost of \$129 million. [Alternative #B1b] When the TPC recommended enumeration of these projects, the Commission determined that the statutory requirement that these projects could be started within six years of enumeration under the program's base level of funding had been met. Therefore, under either the Governor's recommended level of funding (Alternative #A1) or base level funding (Alternative #A4), a decision by the Committee to enumerate these projects would be consistent with the TPC's determination and recommendation. On the other hand, if the Committee adopts a reduced funding level for the program (Alternatives #A2 or #A3), the six-year requirement could not be met. The attachment to this paper provides project descriptions from material DOT has provided to the TPC on these two projects and the three projects addressed in the following points.

20. At its December, 2014, meeting, the TPC also recommended cancelation of the following two major highway projects due to the Department's report that the projects lacked sufficient local support: (a) the Beloit Bypass (STH 81/STH 213) project in Rock County, which has an estimated cost to complete of \$9.3 million [Alternative #B2a]; and (b) the STH 38 project from Racine CTH K to Oakwood Road, in Milwaukee and Racine counties, which has an estimated cost to complete of \$123.9 million. [Alternative #B2b]

21. In addition, the TPC recommended that the USH 14 project from Viroqua to Westby in Vernon County be considered complete. The expansion of the two-lane highway between Viroqua and Westby into a four-lane divided highway has been completed. However, the original project scope also included construction of two-lane bypasses east of Viroqua and west of Westby, which have not been constructed. The Department's report to the TPC indicated that the bypasses were no longer an immediate need and recommended that the project be considered complete. In August, 2014, the Department estimated the project's remaining cost to complete at \$42.2 million. [Alternative #B2c]

ALTERNATIVES

A. Funding Level

1. Approve the Governor's recommendation to provide an increase of \$50,000,000 annually for the major highway development program by reducing funding by \$59,949,900 SEG annually and increasing funding by \$109,949,900 SEG-S (transportation revenue bond expenditure

authority) annually. Total program funding would be equal to \$418,029,400 annually.

2. Modify the Governor's recommendation and delete \$300,000,000 in transportation revenue bonding authority and \$150,000,000 SEG-S annually from the bill and increase estimated transportation fund revenue by \$4,162,500 in 2015-16 and \$14,908,600 in 2016-17 to reflect the estimated debt service reduction associated with this level of bonding. This would reduce total program funding to \$268,029,400 annually.

| ALT A2 | Change to Bill |
|---------------|-----------------------|
| SEG-S | - \$300,000,000 |
| SEG-REV | \$19,071,100 |
| BR | <u>- 300,000,000</u> |
| Total | - \$280,928,900 |

3. Modify the Governor's recommendation and delete \$200,000,000 in transportation revenue bonding authority and \$100,000,000 SEG-S annually from the bill and increase estimated transportation fund revenue by \$2,775,000 in 2015-16 and \$9,939,100 in 2016-17 to reflect the estimated debt service reduction associated with this level of bonding. This would provide total program funding equal to \$318,029,400 annually.

| ALT A3 | Change to Bill |
|---------------|-----------------------|
| SEG-S | - \$200,000,000 |
| SEG-REV | \$12,714,100 |
| BR | <u>- 200,000,000</u> |
| Total | - \$187,285,900 |

4. Modify the Governor's recommendation and delete \$100,000,000 in transportation revenue bonding authority and \$50,000,000 SEG-S annually from the bill and increase estimated transportation fund revenue by \$1,387,500 in 2015-16 and \$4,969,600 in 2016-17 to reflect the estimated debt service reduction associated with the lower level of bonding. This would provide total program funding of \$368,029,400 annually (base level funding plus standard budget adjustments).

| ALT A4 | Change to Bill |
|---------------|-----------------------|
| SEG-S | - \$100,000,000 |
| SEG-REV | \$6,357,100 |
| BR | <u>- 100,000,000</u> |
| Total | - \$93,642,900 |

B. Enumeration of Projects

1. Enumerate one or both of the following projects as major highway projects as recommended by the Transportation Projects Commission:
 - a. the I-43 project between Silver Spring Drive and STH 60 in Milwaukee and Ozaukee counties, which has an estimated cost of \$448 million.
 - b. the I-94 project between USH 12 and 130th Street in St. Croix County, which has an estimated cost of \$129 million.

2. Delete one or more of the following enumerations for projects considered complete or recommended for cancellation by the Transportation Projects Commission:
 - a. the Beloit Bypass (STH 81/STH 213) project in Rock County, which has an estimated cost to complete of \$9.3 million (for which the TPC recommended cancellation).
 - b. the STH 38 project from Racine CTH K to Oakwood Road, in Milwaukee and Racine counties, which has an estimated cost to complete of \$123.9 million (for which the TPC recommended cancellation).
 - c. the USH 14 project from Viroqua to Westby in Vernon County for which the estimated remaining cost to complete is \$42.2 million (which the TPC recommended for consideration as "complete").

Prepared by: John Wilson-Tepeli
Attachment

ATTACHMENT

Enumeration of Projects: Project Descriptions

1. ***I-43 Project Between Silver Spring Drive and STH 60 in Milwaukee and Ozaukee Counties.*** This 14-mile segment of I-43 between Silver Spring Drive and STH 60 is part of a state and federally-designated long truck route to Green Bay, Milwaukee, and other areas of the state. Proposed improvements include reconstructing the corridor with three travel lanes in each direction, replacing the partial interchange at County Line Road with a full-access interchange, and constructing a new interchange at Highland Road. The remaining interchanges and most of the bridges within the corridor would be rebuilt. The estimated cost is \$448 million. At its meeting in December, 2014, the TPC recommended the enumeration of this project.

2. ***I-94 Project Between USH 12 and 130th Street in St. Croix County.*** This 7.5-mile segment of I-94 between US 12 and STH 65 is a federally-designated truck route between the Twin Cities and St. Croix County. Proposed improvements include reconstruction of the existing freeway and addition of a third lane in each direction to create a six-lane divided highway between US 12 and STH 65. The estimated cost is \$129 million. At its most recent meeting, the TPC recommended the enumeration of this project.

3. ***Beloit Bypass Project, STH 81/STH 213.*** This project would add a four-lane bypass to Beloit for state highways 81 and 213. A new alignment would be extended from STH 213 at Nye School Road, south across STH 81 to the Illinois state line. Although the project would continue into Illinois, the portion in Wisconsin would be approximately 2.8 miles long. Both the Illinois and Wisconsin departments of transportation recommended cancellation of the study due to a lack of local support. Based on this recommendation, the TPC recommended that the project be canceled. The cost-to-complete estimate is \$9.3 million.

4. ***STH 38 Project from Racine CTH K to Oakwood Road, in Milwaukee and Racine Counties.*** This project would widen STH 38 from two to four lanes between CTH K in Racine County to Oakwood Road in Milwaukee County. From the intersection of STH 38 and CTH K to Dunkelow Road, the expansion would occur on the existing STH 38 alignment. From Dunkelow Road to Five Mile Road, the four-lane route would follow a new alignment along the Union Pacific Railroad corridor. The route would then roughly follow the Five Mile Road alignment between the railroad corridor and CTH H. DOT has suspended work on the project due largely to a lack of local consensus on a preferred alignment and the TPC recommended that the project be canceled. The cost-to-complete estimate is \$124 million.

5. ***USH 14 Project from Viroqua to Westby in Vernon County.*** The expansion of the two-lane highway between Viroqua and Westby into a four-lane divided highway has been completed. However, the original project scope also included construction of two-lane bypasses east of Viroqua and west of Westby, which have not been constructed. The Department's report to the TPC indicated that the bypasses were no longer an immediate need and recommended that the project be considered complete. The TPC approved the Department's recommendation.