



Legislative Fiscal Bureau

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2017

Joint Committee on Finance

Paper #622

Southeast Wisconsin Freeway Megaprojects (Transportation -- State Highway Program)

Base Agency

[LFB 2017-19 Budget Summary: Page 445, #5]

CURRENT LAW

With the enactment of 2011 Act 32, the 2011-13 budget, the southeast Wisconsin freeway rehabilitation program was replaced with the southeast Wisconsin freeway megaprojects program. A southeast Wisconsin freeway megaproject is defined as an improvement project with an estimated cost exceeding \$625.4 million in 2016 dollars. Southeast Wisconsin freeways are statutorily defined as being located in Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington, or Waukesha counties. Any rehabilitation or capacity expansion project on those freeways with a cost below that threshold is the responsibility of the state highway rehabilitation or major highway development programs, as applicable. Prior to the start of construction, southeast Wisconsin freeway megaprojects must be enumerated in the statutes. Presently, the I-94 North-South freeway and the Zoo Interchange projects are the only enumerated megaprojects.

A total of \$414.6 million was provided for southeast Wisconsin freeway megaprojects in the 2015-17 biennium. This amount was comprised of \$36.5 million in state funds, \$300.0 million in transportation fund-supported, general obligation bonds, and \$78.1 million of federal funds. Of the total amount authorized and appropriated, \$406.4 million was used for the Zoo Interchange project, while \$8.2 million was allocated for a small component of the I-94 North-South project (the County Road K Crossroads project).

GOVERNOR

Make the following changes to the southeast Wisconsin freeway megaprojects project

funding to provide total biennial program resources of \$121,943,200: (a) a decrease of \$3,546,900 SEG and an increase of \$59,643,900 FED in 2017-18, (b) increases of \$686,600 SEG and \$34,887,000 FED in 2018-19; and (c) decreases of \$28,400 SEG annually for overtime, turnover, and full funding of salaries and fringe benefits (included under standard budget adjustments item). [The 2016-17 adjusted base funding for the southeast Wisconsin freeway megaprojects program is \$15,063,600 SEG and \$101,100 FED.]

DISCUSSION POINTS

Background

1. There are three main components of the state highway improvement program: (a) the state highway rehabilitation program; (b) the major highway development program; and (c) the southeast Wisconsin freeway megaprojects program.

2. As shown in Attachment 1, the southeast Wisconsin freeway megaprojects program has, historically, been the smallest of these programs, with a proportionate share of program funding over the past decade of about one-fifth of the total funding provide to these main state highway improvement program components. Although funding was provided for the rehabilitation and reconstruction of southeast freeways from 2001-03 through 2009-11, the southeast Wisconsin freeway megaprojects program was created in 2011-13 to specifically address the ongoing, high-cost reconstruction of freeways in this region of the state. Many of the freeway segments in this region were constructed in the 1960 and 1970s and are in need of replacement due to age and design factors.

3. There are two, ongoing southeast Wisconsin freeway megaprojects that have been enumerated in statute: (a) the I-94 North-South freeway project, construction of which began in 2009; and (b) the Zoo Interchange project, construction of which began in 2013. The I-94 North-South freeway project involves reconstruction of existing lanes and interchanges and the addition of a fourth lane in each direction from the Mitchell Interchange in Milwaukee County to the Illinois state line. As of February, 2017, total inflation-adjusted project costs are estimated at \$1,620.0 million. Anticipated, inflation-adjusted expenditures remaining on the project beyond the 2015-17 biennium are estimated at \$611.4 million. The Zoo Interchange project involves the reconstruction of the junction of I-94, I-894, and USH 45 in western Milwaukee County. In 2012-13, DOT began the reconstruction of the Zoo Interchange at the junction of I-94, I-894, and USH 45 in western Milwaukee County. As of February, 2017, total inflation-adjusted project costs of the Zoo Interchange project are estimated as \$1,537.2 million. Anticipated, inflation-adjusted expenditures remaining on the project beyond the 2015-17 biennium are estimated at \$266.8 million.

4. Table 1 reflects planned southeast Wisconsin freeway megaprojects expenditures in 2017-18 and 2018-19, as well as the following four fiscal years, as of DOT's February, 2017, report to the Transportation Projects Commission.

TABLE 1**Planned Southeast Wisconsin Freeway Megaprojects Program Expenditures
(\$ in Millions)**

<u>Projects</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2021-22</u>	<u>2022-23</u>
I-94 North-South Project	\$112.0	\$156.7	\$184.1	\$151.0	\$5.6	\$2.0
Zoo Interchange Project	<u>144.3</u>	<u>21.1</u>	<u>101.4</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total	\$256.3	\$177.8	\$285.5	\$151.0	\$5.6	\$2.0

5. Table 2 shows the estimated, inflation-adjusted cost of the I-94 North-South and Zoo Interchange projects, as well as planned 2017-19 project costs and anticipated project completion dates.

TABLE 2**Estimated Costs of Southeast Wisconsin Freeway Megaprojects
(\$ in Millions)**

<u>Projects</u>	<u>Total Cost</u>	<u>Funded to Date</u>	<u>Remaining Cost</u>	<u>Scheduled 2017-19 Costs</u>	<u>Scheduled Completion</u>
I-94 North-South	\$1,620.0	\$1,008.6	\$611.4	\$268.7	2022
Zoo Interchange	<u>1,537.2</u>	<u>1,270.4</u>	<u>266.8</u>	<u>165.4</u>	2018
Total	\$3,157.2	\$2,279.0	\$878.2	\$434.1	

6. The Governor's recommendation of \$121.9 million for the southeast Wisconsin freeway megaprojects program would be \$312.2 million less than the amount needed to fund the planned program expenditures in the 2017-19 biennium (\$121.9 million in recommended funding - \$434.1 million in schedule costs).

7. The Department has also developed plans to construct the following five projects under the southeast Wisconsin freeway megaprojects program: (a) I-94 East-West freeway project (I-94 from 70th Street to 16th Street); (b) the Bypass project (I-41/I-894 from Lincoln Avenue to 35th Street and I-43 from Racine Avenue (CTH Y) to the Hale Interchange); (c) I-94 Waukesha County project (I-94 from Willow Glen Road to the Milwaukee/Waukesha County line); (d) I-41 Project (I-41 from Richfield Interchange to Burleigh Road); and (e) the I-43 project (I-43/94 from the southern limits of Marquette Interchange to Howard Avenue and I-43 from Silver Spring Drive to the northern limits of the Marquette Interchange). In his December, 2016, testimony before the Assembly Committee on Transportation, then-Secretary Gottlieb indicated that the current-year, estimated cost of constructing these projects was \$4.3 billion. Each of these projects requires enumeration in the statutes before DOT could begin construction.

8. 2015 Act 55 required DOT to study methods of improving the transportation fund's solvency and to report its findings to the Joint Committee on Finance by January 1, 2017. This

report (the "Solvency Study") was submitted to the Committee in December, 2016, and included analysis related to sources of transportation fund revenue, as well as potential program funding levels, including scenarios related to the southeast Wisconsin freeway megaprojects program. The funding levels described in the Solvency Study were associated with the completion of existing megaprojects (the Zoo and I-94 North-South projects), as well as the planned, future megaprojects projects listed above. These biennial funding levels are as follows: (a) Solvency Scenario #1, which would provide \$350 million (a 15.6% reduction compared to 2015-17 program funding); (b) Solvency Scenario #2, which would provide \$414.6 million (the same amount as 2015-17 program funding); and (c) Solvency Scenario #3, which would provide \$791.7 million. In this study, DOT indicated that the \$350 million per biennium under Solvency Study #1 would result in the completion of existing and planned megaprojects by 2057 (a 40-year completion schedule). Similarly, Solvency Scenarios #2 and #3, would, respectively, result in the completion of the same set of projects by 2049 (a 32-year schedule) and 2033 (a 16-year schedule).

9. Some of the alternatives presented in this paper could rely on the use of bonds for the southeast Wisconsin freeway megaprojects 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 or local highway program components based on these decisions. The funding level for the state highway improvement program under current law and the Governor's recommendation is shown in Attachment 3.

Funding Level

10. The Governor's 2017-19 recommendations for the southeast Wisconsin freeway megaproject program of \$121.9 million are intended to fund the following construction activities: (a) continued work on the I-94 North-South project (\$31.0 million); (b) completion of the remaining "core," or central interchange elements, of the Zoo Interchange project (estimated by DOT as \$40.6 million); and (c) partial funding of various other project elements in this program, as determined by DOT (\$50.3 million), including other possible Zoo Interchange project work.

11. Table 3 shows the total 2017-19 funding for the program under the Governor's recommendations (\$121.9 million). Relative to the total program resources in the 2015-17 biennium, biennial funding under the bill would decrease by 70.6%. [Alternative A1] This level of program funding would be significantly below the level described under all three Solvency Study scenarios.

TABLE 3**Southeast Wisconsin Freeway Megaprojects Program -- Biennial Funding Comparison
(Governor/Alternative A1, \$121.9 Million)**

<u>Fund Source</u>	<u>2015-17</u>		<u>Biennial Total</u>
	<u>2015-16</u>	<u>2016-17</u>	
SEG	\$21,546,900	\$15,000,000	\$36,546,900
FED	78,053,100	0	78,053,100
General Oblg. Bonds (SEG)	<u>300,000,000</u>	<u>0</u>	<u>300,000,000</u>
Total	\$399,600,000	\$15,000,000	\$414,600,000

<u>Fund Source</u>	<u>2017-19 (Bill/Alternative A1)</u>		<u>Biennial Total</u>
	<u>2017-18</u>	<u>2018-19</u>	
SEG	\$11,488,300	\$15,721,800	\$27,210,100
FED	<u>59,745,000</u>	<u>34,988,100</u>	<u>94,733,100</u>
Total	\$71,233,300	\$50,709,900	\$121,943,200
% Change in Total Resources			-70.6%

12. Table 4 compares the scheduled cost of the I-94 North-South and Zoo Interchange project with the Governor's funding recommendation.

TABLE 4**Planned Southeast Wisconsin Freeway Megaprojects Program Expenditures
(\$ in Millions)**

	<u>2017-19</u>	<u>2019-21</u>	<u>2021-23</u>
Planned Expenditures			
I-94 North-South Project	\$268.7	\$335.1	\$7.6
Zoo Interchange Project	<u>165.4</u>	<u>101.4</u>	<u>0.0</u>
Total	\$434.1	\$436.5	\$7.6
Biennial Comparison			
Governor's 2017-19 Recommendation (Ongoing)	\$121.9	\$121.9	\$121.9
Planned Biennial Expenditures*	<u>434.1</u>	<u>436.5</u>	<u>7.6</u>
Difference	-\$312.2	-\$314.6	\$114.3

*Planned expenditures from DOT's February, 2017, financial status report to the transportation projects commission.

13. As shown in Table 4, these two projects would again be delayed under the Governor's 2017-19 budget recommendations and would be further delayed in the next biennium if the same, biennial level of funding were provided in 2019-21. Given the remaining, \$878.2 million in estimated costs associated with these existing projects, if the Governor's recommended biennial funding of \$121.9 million is maintained over time, both projects could be completed in slightly more than 14 years ($\$878.2 \text{ million} / \$121.9 \text{ million per biennium}$). This calculation includes no adjustment for the inflationary costs that would occur beyond the current schedule of 2022-23. Further completion delays would occur if the Governor's 2018-19 funding level, the base year funding (\$50.7 million annually) for the next biennium, is provided on an ongoing basis. In addition, if maintained over time, former Secretary Gottlieb indicated that an ongoing biennial funding level of \$121.9 million would mean that the reconstruction of all planned southeast Wisconsin freeway megaprojects could be completed over a 70-year schedule ($\$4.3 \text{ billion in estimated costs} / \$121.9 \text{ million per biennium}$). Similarly, this completion schedule would not include the effects of inflation.

14. In relation to the slippage in these projects' completion timelines, there may be concern that the communities in the vicinity of these large-scale highway projects, on which substantial construction activities have now been ongoing for several years, would continue to experience adverse consequences from additional delays. For example, because of factors like temporary roadway alignments, changing signage, and active work areas, highway construction zones are generally less safe than completed highway segments. In addition, construction activities frequently result in increased congestion and delay which may also have adverse effects on business operations. Such consequences are likely to be of serious concern to the nearby communities and businesses in the southeast region of the state that would continue to be affected by the further delay of these projects.

15. As shown in Table 4, on a biennial basis, the \$121.9 million recommendation for 2017-19 is \$312.2 million less than the \$434.1 million that DOT indicated would be needed fund planned construction activities for the Zoo Interchange project (\$165.4 million) and the I-94 North-South project (\$268.7 million). A portion of this \$312.2 million program funding gap could be offset using SEG moneys from the transportation fund's balance. Since the bill was introduced, revenues and expenditures to the transportation fund for 2016-17, and the 2017-19 biennium, have been reestimated. [LFB Paper #595] As a result, the transportation fund's 2017-19 biennium ending balance is currently \$93.4 million higher compared to the bill (\$101.8 million in total). Therefore, if the Committee decides to provide additional SEG funding to the southeast Wisconsin freeway megaprojects, it could do so using some of the fund's balance. For example, the Committee could fund \$70.0 million of the \$312.2 million program funding gap with moneys (\$35.0 million annually) from the transportation fund balance. [Alternative A2] Compared to the Governor's recommendation, the additional \$70 million could be used to fund additional work on either the Zoo Interchange or I-94 North-South projects. This would reduce the gap between scheduled work in the biennium on these projects and available funding to \$242.2 million.

16. The following table shows the total 2017-19 funding for the program under this alternative compared to the total program resources in the 2015-17 biennium and the bill.

TABLE 5**Southeast Wisconsin Freeway Megaprojects Program -- Biennial Funding Comparison
(Alternative A2, \$191.9 Million)**

<u>Fund Source</u>	<u>2015-17</u>		<u>Biennial Total</u>
	<u>2015-16</u>	<u>2016-17</u>	
SEG	\$21,546,900	\$15,000,000	\$36,546,900
FED	78,053,100	0	78,053,100
General Oblg. Bonds (SEG)	<u>300,000,000</u>	<u>0</u>	<u>300,000,000</u>
Total	\$399,600,000	\$15,000,000	\$414,600,000

<u>Fund Source</u>	<u>2017-19 (Bill)</u>		<u>Biennial Total</u>
	<u>2017-18</u>	<u>2018-19</u>	
SEG	\$11,488,300	\$15,721,800	\$27,210,100
FED	<u>59,745,000</u>	<u>34,988,100</u>	<u>94,733,100</u>
Total	\$71,233,300	\$50,709,900	\$121,943,200

<u>Fund Source</u>	<u>2017-19 (Alternative A2)</u>		<u>Biennial Total</u>
	<u>2017-18</u>	<u>2018-19</u>	
SEG	\$46,488,300	\$50,721,800	\$97,210,100
FED	<u>59,745,000</u>	<u>34,988,100</u>	<u>94,733,100</u>
Total	\$106,233,300	\$85,709,900	\$191,943,200

% Change in Total Resources -- 2015-17	-53.7%
% Change in Total Resources -- Bill	57.4%

17. This alternative and others would provide additional resources to the southeast Wisconsin freeway megaprojects program. The Committee could decide to vary the mix of funds used in any of the alternatives and may also elect to provide increases or reductions to other state highway program components or local programs, or provide additional revenues to the fund, based on these decisions [see LFB Paper #597].

18. However, if concern exists over the remaining, \$242.2 million in project costs that would be unfunded under the above alternative, the Committee could authorize \$242.2 million in transportation fund-supported, general obligation bonds, as well as appropriate the \$70.0 million SEG from the transportation fund balance. This would provide additional funding totaling \$312.2 million, which when added to Governor's recommendation (\$121.9 million), would provide program funding of \$434.1 million. This funding level would be equal to the total amount of planned southeast Wisconsin freeway megaprojects expenditures in the 2017-19 biennium (although some adjustments to project schedules within the biennium may have to be made). Estimated, transportation fund debt service associated with the issuance of these bonds would be equal to \$0.4 million SEG in 2017-18 and \$4.1 million SEG in 2018-19. Once fully issued estimated debt service on the entire \$242.2 million in bonds would be equal to \$19.4 million

annually. [Alternative A3] The following table shows the total 2017-19 funding for the program under this alternative compared to the total program resources in the 2015-17 biennium and the bill.

TABLE 6

**Southeast Wisconsin Freeway Megaprojects Program -- Biennial Funding Comparison
(Alternative A3, \$434.1 Million)**

<u>Fund Source</u>	<u>2015-17</u>		<u>Biennial Total</u>
	<u>2015-16</u>	<u>2016-17</u>	
SEG	\$21,546,900	\$15,000,000	\$36,546,900
FED	78,053,100	0	78,053,100
General Oblg. Bonds (SEG)	<u>300,000,000</u>	<u>0</u>	<u>300,000,000</u>
Total	\$399,600,000	\$15,000,000	\$414,600,000

<u>Fund Source</u>	<u>2017-19 (Bill)</u>		<u>Biennial Total</u>
	<u>2017-18</u>	<u>2018-19</u>	
SEG	\$11,488,300	\$15,721,800	\$27,210,100
FED	<u>59,745,000</u>	<u>34,988,100</u>	<u>94,733,100</u>
Total	\$71,233,300	\$50,709,900	\$121,943,200

<u>Fund Source</u>	<u>2017-19 (Alternative A3)</u>		<u>Biennial Total</u>
	<u>2017-18</u>	<u>2018-19</u>	
SEG	\$46,488,300	\$50,721,800	\$97,210,100
FED	59,745,000	34,988,100	94,733,100
General Oblg. Bonds (SEG)*	<u>15,700,000</u>	<u>226,500,000</u>	<u>242,200,000</u>
Total	\$121,933,300	\$312,209,900	\$434,143,200

% Change in Total Resources -- 2015-17 4.7%
 % Change in Total Resources -- Bill 256.0%

*See LFB Paper #597 for a discussion of revenue options that would enable the cash financing of this additional program funding.

19. The debt service on the \$242.2 million in bonding used to fund Alternative A3 above would be paid by the transportation fund. As reestimated in LFB Paper #595, estimated debt service supported by the transportation fund as a percentage of that fund's gross revenue (excluding transfers) will equal 20.0% in 2017-18 and 21.8% in 2018-19. This percentage has roughly doubled over the past decade. In the past several budgets, in part due to concern about this sharp increase in transportation debt levels and constrained transportation fund revenue, general fund-supported bonds have been authorized to fund transportation programming. Alternative A3, along with the bonding recommended by the Governor, would increase the percentage of transportation fund revenue used to fund debt service, compared to the bill.

20. If there is a desire to fund the scheduled project work on these southeast Wisconsin freeway projects, but a reluctance to increase transportation fund-supported borrowing, the Committee could instead provide \$242.2 million in general fund-supported, general obligation bonds, along with the \$70.0 million SEG from the transportation fund. [Alternative A4] This would provide the same level of funding as Alternative A3, but instead support the debt service on the bonds with general fund revenue. Estimated, general fund debt service associated with the issuance of these bonds would be equal to \$0.4 million GPR in 2017-18 and \$4.1 million GPR in 2018-19. Once fully issued estimated debt service on the entire \$242.2 million in bonds would be equal to \$19.4 million annually. Alternatively, as noted in LFB Paper #597, there are several transportation revenue options that could be adopted in order to cash finance the scheduled project work in this program in the 2017-19 biennium and beyond.

21. The alternatives outlined above would provide the following levels of southeast Wisconsin freeway megaprojects funding: (a) \$121.9 million under Alternative A1 (the Governor's recommendation); (b) \$191.9 million under Alternative A2; and (c) \$434.1 million under alternatives A3 and A4.

Other Potential Alternatives Related to State Highway Rehabilitation

22. In the past, the Department has indicated that stable, ongoing funding of approximately \$350 million per year would be required fund the reconstruction of the southeast Wisconsin freeway system. DOT's Solvency Study indicated that a more constrained level of southeast freeways funding would result in the ongoing decline of this system and would require the state highway rehabilitation program to absorb an additional \$20 million per year over the next 10 years. Given other program demands, revenue constraints, and the significant debt issues facing the transportation fund, achieving this level of program funding may be difficult in the 2017-19 biennium. Nonetheless, in an effort to address the impact of a constrained southeast freeways program level on the state highway rehabilitation program, the Committee could decide to provide an additional \$20 million SEG in 2018-19 for rehabilitation of the state's highways. [Alternative B1]. This would also establish a base level of funding to meet state highway rehabilitation needs in southeast Wisconsin that would likely occur if a constrained level of funding is provided for the megaprojects program.

23. In part due to the decision to recommend an increase in SEG funding for local purposes, as well as due to other the Governor's other transportation recommendations, the bill would use \$308.7 million in bonds to fund the state highway rehabilitation. As shown in Attachment 2, despite providing a higher biennial level of funding, the bill would reduce the SEG funding component of the state highway rehabilitation program by slightly less than \$70.0 million (\$69.4 million) as compared to 2015-17 funding (a reduction of 12.4%). This would be the lowest amount of SEG funding in the program since the 2009-11 biennium (which had a biennial amount of SEG equal to \$499.8 million). In the past, there has been some reluctance to provide extensive amounts of bonding to fund highway rehabilitation projects because of the (generally) shorter, expected useful lives of such projects. If concern exists over the level of bonding in the state highway rehabilitation program, the Committee could achieve a lower level by doing the following: (a) provide a portion of the transportation fund's balance to provide \$70 million in SEG funding to

state highway rehabilitation program; and (b) provide \$70 million of the bonds recommended for the state highway rehabilitation program to instead increase funding for the southeast Wisconsin freeway megaprojects program. [Alternative B2] Compared to the bill, this would provide the same level of funding for state highway rehabilitation program (\$1,701.6 million) and increase funding by \$70 million for the southeast Wisconsin freeways megaprojects program (for total program resources of \$191.4 million).

Policy Considerations

24. The Governor has indicated that the state should prioritize the maintenance and rehabilitation of its highways rather than expanding the existing system. In response to these priorities, at the DOT Secretary's directive, the Department has recently begun the process of redefining the state highway improvement program's need. ["In an effort to be good stewards of taxpayer dollars, I have directed WisDOT staff to reevaluate and reprioritize all state highway projects."]

25. In addressing the potentially conflicting concerns of program need and available funding, some balance could be needed. Some project scope reductions may be prudent and could produce state highway improvement program cost savings. However, scope reductions to existing projects and/or under-scoping of southeast Wisconsin freeway megaprojects, which are intended to meet the long-term transportation needs of the state, in order to fit the program within currently available revenue, could also have safety and long-term congestion implications for the state. This is similar to the discussion included in LFB Paper #621 related to the major highway development program, which noted that in spite of having identified concerns with the existing corridor infrastructure, the Department has recently considered reducing the scope of I-39/90 project components and canceled two other project studies on the I-39/90/94 corridor in Dane, Sauk, and Columbia counties.

26. In relation to the Southeast Wisconsin freeway megaprojects program, similar concern may exist that DOT, in order to reduce the future, apparent need in the southeast Wisconsin freeway megaprojects program, may cancel, suspend, or delay activities associated with planned future projects/studies. Another more immediate means of reducing the state's ongoing commitment to the southeast region of the state would be to reduce remaining elements of the Zoo Interchange and I-94 North-South projects (such as reducing the scope of the North Leg of the Zoo Interchange project).

Enumeration of Projects

27. In September, 2016, the Department published a final federal record of decision [federal approval] related to the I-94 East-West freeway project in Milwaukee County. The preferred project alternative is an eight-lane replacement of the current six-lane facility, at an estimated cost of \$1,106 million. The project would be defined as the reconstruction of the I-94 freeway in Milwaukee County, from 70th Street to 16th Street, including all interchanges and work on local roads as necessary for the completion of the project. Because the environmental study for this project is complete and the preferred alternative has been selected, DOT could begin initial work on the project if sufficient funding is available and the project is enumerated.

28. The state has already invested significant resources (in excess of \$1.5 billion) in order to expand and modernize the adjacent Zoo and Marquette interchanges on I-94. The proposed reconstruction and expansion of I-94 would occur in between these reconstructed interchanges. If the proposed reconstruction and expansion is not completed, some parties have expressed concern about the potential for traffic congestion issues if the existing six-lane alignment between the two interchanges is maintained. Under its 2017-19 agency budget request, DOT requested a total of \$121.9 million for use on southeast Wisconsin freeway megaprojects, of which only \$31 million would have been used to fund initial design and some utility work and real estate acquisitions on the I-94 East-West project.

29. Given the scale of work that remains unfunded on the Zoo Interchange and I-94 North-South projects, if there is a need to enumerate the I-94 East-West corridor project, it may be reasonable to provide a level of program funding that would enable some limited progress to be made on this project, while also keeping work on the existing projects on schedule. As discussed earlier, given the constraints on transportation funding, one way to provide such a funding level, absent a tax or fee increase, or additional transportation fund debt service, would be to provide general fund-supported bonds to the program. For instance, in addition to the \$121.9 million recommended by the Governor, the Committee could provide the program \$280.0 million in general fund-supported bonds and appropriate \$70 million from the transportation fund balance, which would provide total program resources of \$471.9 million in the biennium. [Alternative C1] Estimated general fund-supported debt service on these bonds would be equal to \$0.4 million GPR in 2017-18 and \$4.6 million GPR in 2018-19. Once fully issued, the annual debt service would be \$22.4 million annually. This amount would fund (with potential adjustments within the biennium) the scheduled, 2017-19 work on the Zoo Interchange and I-94 North-South freeway projects and provide \$37.8 million for initial work on the I-94 East-West project.

30. Rather than financing a portion of the additional \$350.0 million in additional project work under Alternative C1 with \$280.0 million in GPR-supported bonding, the Committee could instead decide to pay for this project work by increasing available transportation fund revenue through tax and fee modifications and/or making reductions to other transportation programs. This would require a total of \$350.0 million SEG, of which \$70.0 million could be appropriated from the transportation fund balance and \$280 million would have to be generated from tax and fee modifications and/or program reductions. [Alternative C2] This would also provide ongoing base funding to the program of \$350.0 million annually, which is the level of ongoing, annual funding that DOT has requested in the past for this program.

31. The following table shows the total 2017-19 funding for the program under Alternatives C1 and C2 compared to the total program resources in the 2015-17 biennium and the bill.

TABLE 7**Southeast Wisconsin Freeway Megaprojects Program -- Biennial Funding Comparison
(Alternative C1/C2, \$471.9 Million)**

<u>Fund Source</u>	<u>2015-17</u>		<u>Biennial Total</u>
	<u>2015-16</u>	<u>2016-17</u>	
SEG	\$21,546,900	\$15,000,000	\$36,546,900
FED	78,053,100	0	78,053,100
General Oblg. Bonds (SEG)	<u>300,000,000</u>	<u>0</u>	<u>300,000,000</u>
Total	\$399,600,000	\$15,000,000	\$414,600,000

<u>Fund Source</u>	<u>2017-19 (Bill)</u>		<u>Biennial Total</u>
	<u>2017-18</u>	<u>2018-19</u>	
SEG	\$11,488,300	\$15,721,800	\$27,210,100
FED	<u>59,745,000</u>	<u>34,988,100</u>	<u>94,733,100</u>
Total	\$71,233,300	\$50,709,900	\$121,943,200

<u>Fund Source</u>	<u>2017-19 (Alternative C1/C2)</u>		<u>Biennial Total</u>
	<u>2017-18</u>	<u>2018-19</u>	
SEG	\$46,488,300	\$50,721,800	\$97,210,100
FED	59,745,000	34,988,100	94,733,100
General Oblg. Bonds (GPR or SEG)*	<u>15,700,000</u>	<u>264,300,000</u>	<u>280,000,000</u>
Total	\$121,933,300	\$350,009,900	\$471,943,200

% Change in Total Resources -- 2015-17 13.8%
 % Change in Total Resources -- Bill 287.0%

*See LFB Paper #597 for a discussion of revenue options that would enable the cash financing of this additional program funding.

32. Given the current budget environment and the significant and ongoing public debate regarding whether or not the project should include an expansion component, some may argue that enumeration of the project is not appropriate at this time. [Alternative C3]

ALTERNATIVES**A. Funding Level**

1. Make the following changes to the southeast Wisconsin freeway megaprojects project

funding to provide total biennial program resources of \$121,943,200: (a) a decrease of \$3,546,900 SEG and an increase of \$59,643,900 FED in 2017-18, (b) increases of \$686,600 SEG and \$34,887,000 FED in 2018-19; and (c) decreases of \$28,400 SEG annually for overtime, turnover, and full funding of salaries and fringe benefits (included under standard budget adjustment items). [The 2016-17 adjusted base funding for the southeast Wisconsin freeway megaprojects program is \$15,063,600 SEG and \$101,100 FED.]

ALT A1	Change to	
	Base	Bill
SEG	- \$2,860,300	\$0
FED	<u>94,530,900</u>	<u>0</u>
Total	\$91,670,600	\$0

2. Approve the Governor's recommendations and provide an additional \$35,000,000 SEG annually (\$70.0 million SEG in the biennium). This funding would provide total resources of \$106,233,300 in 2017-18 and \$85,709,900 in 2018-19 (\$191.9 million in the biennium, or a 53.7% reduction compared to the 2015-17 funding level). This would provide less biennial funding than Solvency Scenario #1 (\$350 million).

ALT A2	Change to	
	Base	Bill
SEG	\$67,139,700	\$70,000,000
FED	<u>94,530,900</u>	<u>0</u>
Total	\$161,670,600	\$70,000,000

3. Approve the Governor's recommendations and provide an additional \$35,000,000 SEG annually (\$70.0 million SEG in the biennium) and authorize \$242,200,000 in transportation fund-supported, general obligation bonds. Increase estimated debt service by \$392,500 SEG in 2017-18 and \$4,091,100 SEG in 2018-19. This funding would provide total resources of \$121,933,300 in 2017-18 and \$312,209,900 in 2018-19 (\$434.1 million in the biennium, or a 4.7% increase compared to the 2015-17 funding level). This would provide a biennial funding level slightly higher than Solvency Scenario #2 (\$414.6 million).

ALT A3	Change to	
	Base	Bill
SEG	\$71,623,300	\$74,483,600
FED	94,530,900	0
BR-SEG	<u>242,200,000</u>	<u>242,200,000</u>
Total	\$408,354,200	\$316,683,600

4. Approve the Governor's recommendations and provide an additional \$35,000,000 SEG annually (\$70.0 million SEG in the biennium) and authorize \$242,200,000 in general fund-supported, general obligation bonds. Increase estimated debt service by \$392,500 GPR in 2017-18

and \$4,091,100 GPR in 2018-19. This funding would provide total resources of \$121,933,300 in 2017-18 and \$312,209,900 in (\$434.1 million in the biennium, or a 4.7% increase compared to the 2015-17 funding level). This would provide a biennial funding level slightly higher than Solvency Scenario #2 (\$414.6 million).

ALT A4	Change to	
	Base	Bill
GPR	\$4,483,600	\$4,483,600
SEG	67,139,700	70,000,000
FED	94,530,900	0
BR-GPR	<u>242,200,000</u>	<u>242,200,000</u>
Total	\$408,354,200	\$316,683,600

5. Delete provision. Adjusted base funding would provide total resources of \$15,164,700 annually (\$30.3 million in the biennium, or a 92.7% reduction compared to the 2015-17 funding level).

ALT A5	Change to	
	Base	Bill
SEG	\$0	\$2,860,300
FED	<u>0</u>	<u>- 94,530,900</u>
Total	\$0	-\$91,670,600

B. Other Potential Alternatives Related to State Highway Rehabilitation

1. Approve the Governor's funding recommendations and provide an additional \$20,000,000 SEG in 2018-19 to the state highway rehabilitation program to fund the estimated rehabilitation costs associated with delayed southeast Wisconsin freeway megaprojects and to provide ongoing base funding for this purpose. The Governor's recommended funding level for the state highway rehabilitation program is \$1,701.6 million in the 2017-19 biennium. [The amounts shown below would be a total change to DOT funding and not specific to one of the two highway programs affected.]

ALT B1	Change to	
	Base	Bill
SEG	\$17,139,700	\$20,000,000
FED	<u>94,530,900</u>	<u>0</u>
Total	\$111,670,600	\$20,000,000

2. Approve the Governor's funding recommendations and provide an additional \$35,000,000 SEG annually (\$70.0 million in the biennium) to the state highway rehabilitation program. Specify that an equal amount (\$70,000,000) of the transportation fund-supported, general obligation bonds recommended for the state highway rehabilitation program would instead be provided to the southeast Wisconsin freeway megaprojects program. This would provide the same

level of funding to state highway rehabilitation as under the bill (\$1,701.6 million) and provide \$70.0 million more in total program resources to the southeast Wisconsin freeways megaprojects program (for a total of \$191.9 million in the biennium, or a 53.8% reduction compared to the 2015-17 funding level). This would provide less biennial funding than Solvency Scenario #1 (\$350 million).

ALT B2	Change to	
	Base	Bill
SEG	\$67,139,700	\$70,000,000
FED	<u>94,530,900</u>	<u>0</u>
Total	\$161,670,600	\$70,000,000

C. Enumeration of Projects

1. Approve the Governor's funding recommendations and provide the following additional funding: (a) \$35,000,000 SEG annually; and (b) authorize \$280,000,000 in general fund-supported, general obligation bonds. Increase estimated, debt service by \$392,500 GPR in 2017-18 and \$4,563,600 in 2018-19. Enumerate the I-94 East-West freeway project as a southeast Wisconsin freeway megaproject. Define this project as the reconstruction of the I-94 freeway in Milwaukee County, from 70th Street to 16th Street, including all interchanges, and including work on local roads as necessary for the completion of this project. This funding would provide total resources of \$121,933,300 in 2017-18 and \$350,009,900 in 2018-19 (\$471.9 million in the biennium, or a 13.8% increase compared to the 2015-17 funding level). This alternative would fund \$434.1 million in 2017-19 work on the Zoo Interchange and I-94 North-South projects, and allow initial work on the I-94 East-West freeway project to commence.

ALT C1	Change to	
	Base	Bill
GPR	\$4,956,100	\$4,956,100
SEG	67,139,700	70,000,000
FED	94,530,900	0
BR-GPR	<u>280,000,000</u>	<u>280,000,000</u>
Total	\$446,626,700	\$354,956,100

2. Approve the Governor's funding recommendations and provide additional funding of \$50,700,000 SEG in 2017-18 and \$299,300,000 SEG in 2018-19. Enumerate the I-94 East-West freeway project as a southeast Wisconsin freeway megaproject. Define this project as the reconstruction of the I-94 freeway in Milwaukee County, from 70th Street to 16th Street, including all interchanges, and including work on local roads as necessary for the completion of this project. This funding would provide total resources of \$121,933,300 in 2017-18 and \$350,009,900 in 2018-19 (\$471.9 million in the biennium, or a 13.8% increase compared to the 2015-17 funding level). This alternative would fund \$434.1 million in 2017-19 work on the Zoo Interchange and I-94 North-South projects, and allow initial work on the I-94 East-West freeway project to commence.

ALT C2	Change to	
	Base	Bill
SEG	\$347,139,700	\$350,000,000
FED	<u>94,530,900</u>	<u>0</u>
Total	\$441,670,600	\$350,000,000

3. Take no action.

Prepared by: John Wilson-Tepeli
Attachments

ATTACHMENT 1

Historical Information on Three Major Components of State Highway Improvement Program (\$ in Millions)

<u>Biennium</u>	<u>State Highway Rehabilitation</u>	<u>Major Highway Development</u>	<u>Southeast Wisconsin Freeways*</u>	<u>Total</u>
2005-07	\$1,202.8	\$565.6	\$473.3	\$2,241.7
2007-09	1,560.8	695.9	494.2	2,750.9
2009-11	1,545.8	713.6	643.0	2,902.4
2011-13	1,607.6	743.6	420.0	2,771.2
2013-15	1,640.4	728.4	517.0	2,885.8
2015-17	1,698.0	641.1	414.6	2,753.7
2017-19**	1,701.6	669.9	121.9	\$2,493.4

<u>Biennium</u>	<u>State Highway Rehabilitation</u>	<u>Major Highway Development</u>	<u>Southeast Wisconsin Freeways*</u>	<u>Total</u>
2005-07	53.7%	25.2%	21.1%	100.0%
2007-09	56.7	25.3	18.0	100.0
2009-11	53.3	24.6	22.2	100.0
2011-13	58.0	26.8	15.2	100.0
2013-15	56.8	25.2	17.9	100.0
2015-17	61.7	23.3	15.1	100.0
2017-19**	68.2%	26.9%	4.9%	100.0%

*Shows funding provided for projects through the southeast Wisconsin freeway rehabilitation (2005-07 thru 2009-11) or megaprojects programs (2011-13 thru 2015-17). Beginning in 2011-13, southeast Wisconsin freeway projects that are not megaprojects are funded under either the major highway development or state highway rehabilitation programs.

**Reflects the Governor's 2017-19 budget recommendation.

Note: Some totals do not add due to rounding.

ATTACHMENT 2

Highway Improvement Program Under Governor's 2017-19 Budget Recommendations*

	<u>2015-17</u>	<u>Governor 2017-19</u>	<u>Biennial Change in Resources</u>	<u>% Change in Biennial Resources</u>
State Highway Rehabilitation				
SEG	\$627,294,500	\$557,866,400	-\$69,428,100	
FED	920,730,900	835,027,700	-85,703,200	
General Obligation Bonds**	<u>150,000,000</u>	<u>308,738,300</u>	<u>158,738,300</u>	
Subtotal	\$1,698,025,400	\$1,701,632,400	\$3,607,000	0.2%
Major Highway Development				
SEG	\$131,120,400	\$152,947,700	\$21,827,300	
FED	185,741,200	363,636,100	177,894,900	
Trans. Revenue Bonds	169,012,200	153,281,700	-15,730,500	
General Obligation Bonds**	<u>155,227,600</u>	<u>0</u>	<u>-155,227,600</u>	
Subtotal	\$641,101,400	\$669,865,500	\$28,764,100	4.5%
SE Wis. Freeway Megaprojects				
SEG	\$36,546,900	\$27,210,100	-\$9,336,800	
FED	78,053,100	94,733,100	16,680,000	
General Obligation Bonds (SEG)	<u>300,000,000</u>	<u>0</u>	<u>-300,000,000</u>	
Subtotal	\$414,600,000	\$121,943,200	-\$292,656,800	-70.6%
High-Cost Bridge				
General Obligation Bonds (SEG)	\$16,800,000	\$0	-\$16,800,000	-100.0%
Major Interstate Bridge Construction				
SEG	\$0	\$8,000,000	\$8,000,000	
General Obligation Bonds (SEG)	<u>20,000,000</u>	<u>0</u>	<u>-20,000,000</u>	
Subtotal	\$20,000,000	\$8,000,000	-\$12,000,000	-60.0%
 Total -- State Highway Improvement Program	 \$2,790,526,800	 \$2,501,441,100	 -\$289,085,700	 -10.4%

*Amounts shown comprise all highway improvement program items under the bill including federal aid reestimates and standard budget adjustments.

**Contingent highway bonding (SEG and GPR) provided under 2015 Act 55. The amount shown for the major highway development program reflects a \$44.8 million reduction in bonding (SEG), as required by provisions of that Act.