

Transportation

State Highway Program

(LFB Budget Summary Document: Page 578)

LFB Summary Items for Which Issue Papers Have Been Prepared

<u>Item #</u>	<u>Title</u>
2 & 3	State Highway Rehabilitation Program and State Highway Rehabilitation Program - I-94 and Moorland Road Interchange in Waukesha County (Paper #605)
4	Major Highway Development Program (Paper #606)
5 & 6	Southeast Wisconsin Freeway Megaprojects and Enumeration of I-94 East-West Corridor Project in Milwaukee County as a Southeast Wisconsin Freeway Megaproject (Paper #607)
7	State Highway Design-Build Projects (Paper #608)
8	State Highway System - Salt Funding (Paper #609)
9	Hoan Bridge Fencing (Paper #610)

LFB Summary Items Removed From Budget Consideration

<u>Item #</u>	<u>Title</u>
10	Reinstate DOT's Authority Related to Bicycle and Pedestrian Facilities on New Highway Construction Projects
11	Repeal 2017 Act 368 Federal Funding Limitations on State Highway Projects



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

June, 2021

Joint Committee on Finance

Paper #605

State Highway Rehabilitation Program (Transportation – State Highway Program)

[LFB 2021-23 Budget Summary: Page 581, #2, Page 582, #3, and Page 601, #5]

CURRENT LAW

The state highway rehabilitation program is responsible for the reconstruction, reconditioning, and resurfacing of the highways and bridges of the state highway system, except for highway projects that exceed the capacity expansion thresholds established for the major highway development, southeast Wisconsin freeway megaprojects, high-cost bridge, and major interstate bridge programs. In 2019-21, a total of \$1,937.8 million (\$1,040.8 million in state funds and \$897.0 million in federal funds) was provided for the state highway rehabilitation program.

DISCUSSION POINTS

Background

1. There are three main components of the state highway improvement program: (a) the state highway rehabilitation program (SHR); (b) the major highway development program; and (c) the southeast Wisconsin freeway megaprojects program. As shown in Attachment 1, the SHR program is the largest of these programs, with a proportionate share of program funding over the past decade generally in the range of 55% to 75% of the total funding for these three programs.

2. The Department of Transportation's (DOT) central office, in consultation with its five administrative regions, creates and follows a comprehensive, six-year program (or schedule) for state highway rehabilitation. The six-year program is updated periodically based on changes in funding and in the plans for individual projects. The proportionate, regional distribution of state highway rehabilitation funding is shown in Attachment 2.

3. The primary method that DOT uses to assess the impact of a given funding level within the state highway rehabilitation program over time is estimating the percentage of "backbone" and "non-backbone" state highways that would be in "fair and above" condition at the end of a 10-year period at that funding level. The backbone system includes multilane interstate, the U.S. highway system, and significant segments of the state highways that connect the major regions and economic centers of the state, as well as to the national highway system outside of Wisconsin. The remainder of this system is classified as "non-backbone" and is generally comprised of lower order or lower traffic volume state highways. Generally, a highway in "fair or above" condition can be treated to extend pavement life without a more costly, full-depth reconstruction.

4. In May, 2021, DOT estimated that backbone and non-backbone state highways would be, respectively, in 98.3% and 74.7% fair and above condition at the start of 2021-22. DOT notes that these projections require several assumptions and are subject to variation. DOT conducted these estimates using a biennial funding level of \$1,985.3 million, which equals the amount provided the program in 2020-21 doubled. Using these amounts, as well as the annual funding increases needed to make inflationary adjustments so as to maintain purchasing power, DOT estimates road conditions would increase to 100.0% fair and above for the backbone system and 77.2% for the non-backbone system by 2031-32. Without the funding increases needed to maintain purchasing power, the Department estimates that these conditions would decline respectively to 95.8% and 71.2% fair and above by 2031-32. Each of the alternatives in this paper, aside from the base funding level that would occur if the Committee takes no further action regarding SHR funding, would provide a funding level in each year greater than the amount needed for the program to maintain purchasing power.

5. In past budget discussions, the Department noted that the SHR program funding level has the most significant, direct impact on highway conditions. However, DOT has also stressed that major highway development and southeast Wisconsin freeway megaprojects must also be funded at sufficient levels in order to avoid spillover effects to the SHR program that would negatively affect these highway conditions over time. Although both of these programs typically deal with capacity expansion issues, these reconstruction projects eliminate the highway rehabilitation needs on those redeveloped highways as well. Absent sufficient funding for the majors and megaprojects programs, additional pressure would be placed on state highway rehabilitation program funding, primarily due to significant age-related infrastructure issues in the southeast region of the state, as well as other parts of the state.

Transportation Fund Concerns, Bonding and Debt Service

6. While the 2019-21 budget increased revenues to the transportation fund, the coronavirus pandemic has dampened the impact of those revenue increases to the fund, as well as to ongoing base level revenues. Thus, in compiling the 2021-23 budget, the Governor recommends a significant reduction to the base level SEG funding for the SHR program and the southeast Wisconsin freeway megaprojects program, which would free up SEG funding to fund other recommendations, including a \$75 million local supplement program, as well as providing other SEG funding increases to general transportation aid, transit programs, state highway maintenance, and to the State Patrol. The Governor recommends replacing the base SEG funding for the highway program with \$318.5 million in SEG-supported general obligation bonds for the SHR program (\$278.5 million) and the megaprojects

program (\$40.0 million).

7. In an earlier action, the Committee adopted the adjusted base level funding amounts as the starting point for its 2021-23 transportation budget actions under Assembly Substitute Amendment 1 (ASA 1) to AB 68/Senate Substitute Amendment 1 (SSA 1) to SB 111. This action provides base level SEG funding for the state highway improvement programs, and all other DOT programs. As a result, expenditures from the transportation fund are significantly higher than under the Governor's recommendations. Subsequently, under Motion #24, the Committee adopted standard budget adjustments and reestimates of sum sufficient debt service appropriations that reduced SEG appropriations by \$46.5 million in 2021-22 and \$31.4 million in 2022-23. However, despite these earlier actions and slightly higher estimated revenues, the estimated 2022-23 ending balance for the transportation fund is estimated at -\$32.3 million under the ASA 1/SSA 1. This projected negative balance is prior to funding any of the Governor's 2021-23 biennial budget recommendations or the authorizing of any bonding for the highway program. Thus, under current estimates, the availability of transportation fund revenues to fund above-base transportation programming is limited. Additional reductions to base level funding, and/or the authorization of bonding in lieu of SEG funding for the state highway improvement program would be needed to balance the fund in the 2021-23 biennium under the substitute amendments.

8. The state transportation fund provides funding for a variety of state operations, like Division of Motor Vehicles services and State Patrol, as well maintenance of the state's highway infrastructure. In addition, the fund provides SEG monies for the local transportation operations primarily through general transportation aids and mass transit operating assistance as well as for a variety of local infrastructure improvement programs. Several of these programs have received SEG funding increases in recent biennia. Such SEG funding from the transportation fund that is allocated or committed to local programs, especially on an ongoing basis, reduces the amount of SEG funding available to fund DOT operations and the state highway improvement program. The question then arises as to whether the state's transportation fund has the financial ability to support both local highway infrastructure and the state highway infrastructure. On the other hand, since the 2005(06) property tax year, the Department of Revenue (DOR) has administered a levy limit program that restricts the year-to-year increases in county and municipal property tax levies, which some contend inhibits the ability of some local governments to raise the revenue needed to maintain and rehabilitate their transportation infrastructure. As a result, state assistance for local transportation facilities and services may be warranted.

9. While revenues are expected to be higher in the biennium compared to last biennium, primarily due to the fully implemented title and registration fee increases enacted under 2019 Act 9, the pandemic has dampened the anticipated amount of revenue growth to the fund in the biennium relative to the revenues projected during 2019 Act 9 deliberations. If SEG funding is provided for local transportation purpose, as the Governor recommends, some level of bonding would likely be needed to replace SEG "cash" that would have to be removed from the state highway improvement program in order to maintain the needed level of investment in the state highway system. While some level of SEG-supported bonding is necessary to fund long-term highway infrastructure improvements, any heavy reliance on bonding for the state highway improvement program due to limited SEG funds being available, whether as a result of limited revenue growth to the fund, or the

significant use of SEG funding for other purposes such as the increases to local transportation programs, will continue to be a concern.

10. From 2009-10 through 2016-17, the transportation fund-supported debt service as a percentage of gross transportation fund revenue (excluding federal aid, bond revenue, and transfers from other funds) increased from 10.9% to 19.0% due to the heavy reliance on borrowing prior to, and during, that period. Since that time, due to less reliance on SEG-supported bonding in recent biennia, along with the 2019 Act 9 revenue increases, debt service as a percentage of revenue has decreased to 18.5% and is expected to decrease to 17.2% by the end of 2020-21. Under the Governor's recommendations, this percentage would increase to 17.3% in 2021-22 and 18.1% in 2022-23, primarily as a result of the large amount of SHR SEG-supported bonding being recommended. Reductions in SEG "cash" for SHR, with a heavy reliance on bonding, as recommended by the Governor, will inevitably lead to the dilemma that the SEG funds needed to repay those bonds will again diminish the SEG funds available for state and local transportation programming going forward. In the 2021-23 biennium, the Department is scheduled to retire an estimated \$464.6 million in transportation fund-supported bonds (\$283.3 million in transportation revenue bonds and \$181.3 million in transportation fund-supported, general obligation bonds). Maintaining a transportation fund-supported borrowing level less than this amount would have the effect of improving the ratio of debt service to gross revenues in the transportation fund until the ratio is at a more reasonable level over time.

11. The level of borrowing coupled with the lack of SEG funds for the state highway program is of particular concern when SEG-supported bonding is used to fund SHR projects as the Governor recommends. The use of bonds, which are a long-term capital financing option, often does not align well with the shorter expected useful life of improvements to rehabilitated highway facilities. Accordingly, bonds issued for SHR projects have historically been issued for shorter terms. As a result, the principal amount borrowed is typically repaid more quickly, which raises near-term annual debt service payments, but overall interest costs are less than the longer term, 20-year bond terms typically issued for transportation infrastructure projects.

12. Under Motion #24, the Committee earlier approved standard budget adjustment (SBA) reductions to the SHR program of \$13,471,600 SEG annually and \$353,300 FED annually. The table below shows the effect of Motion #24 on the SHR funding level prior to further Committee action. The table also includes reductions of \$5,300 SEG annually and \$118,000 FED annually due to a minor reorganization of Department funding requested by the Department and recommended by the Governor, but yet to be adopted by the Committee.

TABLE 1

**2021-23 State Highway Rehabilitation Program
Committee Base Budget Changes**

	<u>SEG</u>	<u>FED</u>	<u>Total</u>
Adjusted Base Funding Level	\$1,088,161,800	\$907,252,200	\$1,995,414,000
Motion #24*	<u>-26,953,800</u>	<u>-942,600</u>	<u>-27,896,400</u>
SHR Prior to Further JFC Action	\$1,061,208,000	\$906,309,600	\$1,967,517,600

*Amounts shown include a minor departmental funding reorganization, yet to be adopted by the Committee.

13. The availability of transportation fund revenue to fund any of the alternatives described in this paper would depend on other actions taken by the Committee relative to the use of available SEG funds. This would include actions relating to above base SEG funding increases for local transportation programs, state highway maintenance, and State Patrol, and the level of SEG funding needed in the biennium to support transportation-related debt authorized for the 2021-23 biennium.

Alternative Funding Levels

14. The table below displays the funding composition in each of the alternatives discussed in this paper. The program's base budget as modified by the Committee would provide about 1.5% more funding as the 2019-21 funding level (\$1,968 million compared to \$1,938 million).

TABLE 2

**Potential 2021-23 State Highway Rehabilitation Program
Funding Levels**

<u>Potential Funding Levels*</u>	<u>SEG</u>	<u>FED</u>	<u>Gen. Ob. Bonds (SEG)</u>	<u>Total</u>
Base Budget (Alt. A4)*	\$1,061,208,000	\$906,309,600	\$0	\$1,967,517,600
Governor (Alt. A1)	775,949,900	950,053,500	278,500,000	2,004,503,400
\$100 Million Bonding (Alt. A2)	954,449,900	950,053,500	100,000,000	2,004,503,400
No Bonding (Alt. A3)	1,054,449,900	950,053,500	0	2,004,503,400

*Amounts shown comprise all state highway rehabilitation recommendation items, including adjustments to the base, standard budget adjustments, and a minor reorganization of Department funding.

15. In April, 2021, the Department of Administration issued an errata to achieve the intended level of SEG funding for the SHR program. This correction would provide an additional \$9,230,000 SEG in SHR funding each year compared to the Governor's initial recommendations. Accounting for this errata, the Governor recommends a total 2021-23 SHR funding level of \$2,004,503,400,

including authorization of \$278,500,000 BR in transportation fund-supported, general obligation bonds. The Governor's recommendation did not include any transportation fund-supported debt service associated with the recommended general obligation bonds in the biennium. Nonetheless, estimated debt service associated with the partial issuance of these bonds in the biennium would be \$1,160,500 in 2021-22 and \$11,658,400 in 2022-23. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at \$31,493,900 annually. [Alternative A1]

16. The Governor's intended recommendation would provide the SHR program with a modest increase in the level of funding for SHR in the biennium compared to an adjusted base funding level, as adjusted by earlier Committee action (an increase of \$36,985,800 or 1.9%). This SHR funding level would slightly exceed the ongoing SHR program funding level that DOT estimates is necessary to maintain state highway investment purchasing power and would lead to modest increases in the total number of state highway miles in fair and above condition from 79.9% to 82.2% by the end of 2030-31, including 100% of the system's backbone miles. The Governor's modified recommendations for the SHR program for the 2021-23 biennium are shown in the table below. In considering the Governor's SHR program funding recommendations it should be noted that the program is a statewide infrastructure program that provides some benefit to all regions of the state.

TABLE 3

**State Highway Rehabilitation Program Funding --
2021-23 Governor's Recommendations**

<u>Fund</u>	<u>Funding (Alternative A1)</u>		
	<u>2021-22</u>	<u>2022-23</u>	<u>Biennial Total</u>
SEG	\$334,016,100	\$441,933,800	\$775,949,900
FED	466,997,400	483,056,100	950,053,500
G.O. Bonds (SEG)	<u>139,250,000</u>	<u>139,250,000</u>	<u>278,500,000</u>
Total	\$940,263,500	\$1,064,239,900	\$2,004,503,400

*Amounts shown comprise all state highway rehabilitation recommendation items, including adjustments to the base, standard budget adjustments, and a minor reorganization of Department funding.

<u>Debt Service (Alternative A1)</u>			
<u>2021-22</u>	<u>2022-23</u>	<u>Biennial Total</u>	<u>Annualized Once Fully Issued</u>
\$1,160,500	\$11,658,400	\$12,818,900	\$31,493,900

17. Attachments 3 and 4 reflect SHR program projects that DOT has identified as "added" or "advanced" to the program's six-year schedule under the Governor's budget recommendation for this program. Attachment 3 provides the list of state highway rehabilitation projects that would likely be added or advanced into the 2021-23 biennium under the Governor's intended recommendations,

while Attachment 4 is a DOT-produced map that reflects the existing state highway rehabilitation schedule and the accelerated project work listed in the prior attachment. The Department would have to reexamine the program's schedule and regional funding levels in the context of any lower funding level.

18. As mentioned, the coronavirus pandemic is expected to have the lingering effect of somewhat dampening transportation fund revenues in the biennium. Further, ongoing concerns remain regarding the level of new bonding authority the fund should support, especially the shorter-term borrowing required for SHR projects. Given these concerns, one possible alternative would be to provide the same level of SHR funding recommended by the Governor, but instead provide the program with more SEG funding than the Governor is recommending, which, in turn, would reduce the amount of bonding needed. This alternative could provide \$100,000,000 in SHR bonding rather than the \$278,500,000 recommended by the Governor. Consequently, in order to meet the same level of SHR program funding as the Governor recommends, \$178,500,000 in SEG funding would have to be provided, as shown in the table below. This SEG funding level would still be a decrease compared to the base level SEG funding amount, as adjusted by earlier action of the Committee. Estimated debt service associated with the partial issuance of the \$100.0 million in bonds in the biennium would be \$416,700 in 2021-22 and \$4,186,200 in 2022-23. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at \$11,308,400 annually. Funding under this alternative is shown in the table below. [Alternative A2]

TABLE 4

**State Highway Rehabilitation Program Funding --
2021-23 \$100.0 Million Bonding Alternative**

<u>Fund</u>	<u>Funding (Alternative A2)*</u>		
	<u>2021-22</u>	<u>2022-23</u>	<u>Biennial Total</u>
SEG	\$423,266,100	\$531,183,800	\$954,449,900
FED	466,997,400	483,056,100	950,053,500
G.O. Bonds (SEG)	<u>50,000,000</u>	<u>50,000,000</u>	<u>100,000,000</u>
Total	\$940,263,500	\$1,064,239,900	\$2,004,503,400

*Amounts shown comprise all state highway rehabilitation recommendation items, including adjustments to the base, standard budget adjustments, and a minor reorganization of Department funding.

<u>Debt Service (Alt. A2)</u>			
<u>2021-22</u>	<u>2022-23</u>	<u>Biennial Total</u>	<u>Annualized Once Fully Issued</u>
\$416,700	\$4,186,200	\$4,602,900	\$11,308,400

19. Some may have concerns about issuing any amount of new bond authorizations for the SHR program given the shorter expected useful life of SHR project improvements and higher upfront debt service costs associated with the shorter maturity on bonds issued for SHR projects. Maintaining

the same level of funding for the SHR program as the Governor intended, while authorizing no new bonding for the program, would require providing \$278,500,000 in additional SEG funding in the biennium relative to the Governor's recommendations. However, in order to provide the amount of SEG funding for the SHR program under this alternative, the Committee would be limited in their ability to provide other SEG funding increases to local transportation programs, state highway maintenance, and State Patrol. Funding under this alternative is shown in the table below. [Alternative A3]

TABLE 5
State Highway Rehabilitation Program Funding --
2021-23 No Bonding Alternative

<u>Fund</u>	<u>Funding (Alternative A3)*</u>		Biennial Total
	<u>2021-22</u>	<u>2022-23</u>	
SEG	\$508,266,100	\$546,183,800	\$1,054,449,900
FED	<u>466,997,400</u>	<u>483,056,100</u>	<u>950,053,500</u>
Total	\$975,263,500	\$1,029,239,900	\$2,004,503,400

*Amounts shown comprise all state highway rehabilitation recommendation items, including adjustments to the base, standard budget adjustments, and a minor reorganization of Department funding.

20. If the Committee took no action, the SHR program would be funded at \$1,967,517,600 in the 2021-23 biennium, after accounting for the Committee's earlier actions (and including minor funding reorganizations). This base funding level, as modified by the Committee, would provide about 1.5% more in SHR program funding compared to the 2019-21 funding level of \$1,937.8 million. However, this funding alternative would provide less SHR funding than what the Department estimates is needed to provide modest improvements to the system's road conditions over a 10-year period, if inflationary adjustments are provided. Further, this alternative would provide less overall funding for the SHR program compared to the other alternatives in this paper. However, more SEG "cash" funding would be retained in the program. Again, as noted, in order to provide the amount of SEG funding for the SHR program under this alternative, the Committee would be limited their ability to provide other SEG funding increases to local transportation programs, state highway maintenance, and State Patrol. [Alternative A4]

TABLE 6

**State Highway Rehabilitation Program Funding --
Base Budget Alternative**

<u>Fund</u>	<u>Funding (Alternative A4)*</u>		
	<u>2021-22</u>	<u>2022-23</u>	<u>Biennium</u>
SEG	\$530,604,000	\$530,604,000	\$1,061,218,000
FED	<u>453,154,800</u>	<u>453,154,800</u>	<u>906,309,600</u>
Total	\$983,758,800	\$983,758,800	\$1,967,517,600

*As modified by earlier actions of the Committee in May, 2021, and includes a minor reorganization of Department funding.

I-94 and Moorland Road Interchange in Waukesha County

21. There are concerns regarding the safety of the Moorland Road off-ramp from west-bound I-94 in Waukesha County. Moorland Road (County Highway O) is a six-lane divided highway in Brookfield. The road serves an urban area, including the Brookfield Mall and surrounding developments, and has average daily traffic volumes between 31,600 and 41,200 vehicles per day. Because of its location and use, this section of Moorland Road experiences significant congestion and experiences crash rates more than twice the statewide average and injury rates almost six times the statewide average, according to DOT. As a result, Waukesha County is in the planning stages of a project to address safety, pavement condition, and congestion on Moorland Road. However, the interchange with I-94 is a DOT responsibility.

22. The Department notes that a long-term solution is a complete reconstruction of the interchange as part of larger project, although that project is several years away from being ready. In the short-term the Department indicates it can provide improvements through signalization and geometric developments, including (a) creating a triple right turn lane on the west-bound off-ramp; (b) installing a signal at the west-bound off-ramp and north-bound Moorland Road intersection; (c) extending the north-bound left turn lane at the west-bound on-ramp intersection and adding an island to separate the turn lane from the through lane; and (d) installing a north-bound right turn lane at the east-bound on-ramp intersection.

23. The Governor recommends that DOT allocate \$1,750,000 SEG for the construction of geometric improvements to improve the safety of the interchange of I-94 and Moorland Road in Waukesha County in the 2021-23 biennium, and listing this allocation as an allowable use of funds from the state highway rehabilitation SEG appropriation. Doing so would prioritize the project over other SHR projects in the biennium. [Alternative B1]

24. As DOT notes, a complete reconstruction of this interchange is currently years away. If the Moorland Road interchange is not explicitly earmarked, the project would remain eligible for funding from the SHR program, but would not have statutory priority over other SHR projects. If the project should be a priority, as the Governor recommends, it may be possible it could be completed

in the biennium under the SHR program's standard prioritization process. [Alternative B2]

ALTERNATIVES

A. Funding Level

1. Make the following changes to the SHR program funding in order to provide a 2021-23 funding level of \$2,004,503,400: (a) a decrease of \$196,587,900 SEG and an increase of \$13,842,600 FED in 2021-22; (b) a decrease of \$88,670,200 SEG and an increase of \$29,901,300 FED in 2022-23; and (c) authorization of \$278,500,000 BR in transportation fund-supported, general obligation bonds. Estimate debt service associated with the partial issuance of these bonds in the biennium at \$1,160,500 SEG in 2021-22 and \$11,658,400 SEG in 2022-23. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at \$31,493,900 annually. This funding reflects the change to base level funding as modified by standard budget adjustments made under earlier actions of the Committee and include the minor reorganization of Department funding requested by the Department and recommended by the Governor.

ALT A1	Change to Base
SEG	-\$272,439,200
FED	43,743,900
BR-SEG	<u>278,500,000</u>
Total	\$49,804,700

2. Make the following changes to the SHR program funding in order to provide a 2021-23 funding level of \$2,004,503,400: (a) a decrease of \$107,337,900 SEG and an increase of \$13,842,600 FED in 2021-22; (b) increases of \$579,800 SEG and \$29,901,300 FED in 2022-23; and (c) authorization of \$100,000,000 BR in transportation fund-supported, general obligation bonds. Estimated debt service associated with the partial issuance of these bonds in the biennium would be \$416,700 SEG in 2021-22 and \$4,186,200 SEG in 2022-23. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at \$11,308,400 annually. The funding reflects the change to base level funding as modified by standard budget adjustments made under earlier actions of the Committee and include a minor reorganization of Department funding requested by the Department and recommended by the Governor.

ALT A2	Change to Base
SEG	-\$102,155,200
FED	43,743,900
BR-SEG	<u>100,000,000</u>
Total	\$41,588,700

3. Make the following changes to the SHR program funding in order to provide a 2021-23 funding level of \$2,004,503,400: (a) a decrease of \$22,337,900 SEG and an increase of \$13,842,600 FED in 2021-22; and (b) increases of \$15,579,800 SEG and \$29,901,300 FED in 2022-23. The

amounts shown reflect standard budget adjustments made under earlier actions of the Committee and include a minor reorganization of the Department funding requested by the Department and recommended by the Governor.

ALT A3	Change to Base
SEG	- \$6,758,100
FED	<u>43,743,900</u>
Total	\$36,985,800

4. Take no action, which would provide a 2021-23 funding level for the SHR program of \$1,967,517,600. This funding reflects the change to base level funding, as modified by the standard budget adjustments made under earlier actions of the Committee and includes a minor departmental reorganization requested by the Department and recommended by the Governor.

B. I-94 and Moorland Road Interchange in Waukesha County

1. Require the Department to allocate \$1,750,000 SEG for the construction of geometric improvements to improve the safety of the interchange of I-94 and Moorland Road in Waukesha County in the 2021-23 biennium, and list this allocation as an allowable use of funds from the state highway rehabilitation SEG appropriation.

2. Take no action.

Prepared by: Nick Lardinois
Attachments

ATTACHMENT 1

Recent Biennial Funding Levels for Three Main 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>
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	1,626.2	563.7	535.6	2,725.7
2019-21	1,937.8	564.2	226.4	2,728.4
2021-23*	\$2,004.5	\$565.6	\$82.0	\$2,652.1

<u>Biennium</u>	<u>State Highway Rehabilitation</u>	<u>Major Highway Development</u>	<u>Southeast Wisconsin Freeways</u>	<u>Total</u>
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	59.7	20.7	19.6	100.0
2019-21	71.0	20.7	8.3	100.0
2021-23*	75.6%	21.3	3.1%	100%

*Governor's budget recommendation after correcting for technical errata, excluding the design build bonding recommendation, which could be used for any of the components of the state highway improvement program.

ATTACHMENT 2

Six-Year Plan Regional State Highway Funding Allocations

<u>Allocations</u>	<u>% of Total Funding</u>
Regions (Non-Backbone)*	
Southwest Region	19.7%
Southeast Region	14.8
Northeast Region	7.5
North Central Region	8.5
Northwest Region	<u>11.9</u>
Subtotal	62.4%
Centrally-Scheduled (Backbone)	37.6%
Total	100.0%

Note: Percentage total does not add due to rounding. The regional allocation of state highway rehabilitation program funding is for non-backbone highways, which are typically lower-order or relatively less travelled highways in the state. The centrally-scheduled funding is provided for projects on the state's backbone highway system, which is a 1,590 mile system of highways connecting major economic areas of the state.

*The five regions and the counties in each region are:

- North Central Region: Adams, Florence, Forest, Green Lake, Iron, Langlade, Lincoln, Marathon, Marquette, Menominee, Oneida, Portage, Price, Shawano, Vilas, Waupaca, Waushara, and Wood counties.
- Northeast Region: Brown, Calumet, Door, Fond du Lac, Kewaunee, Manitowoc, Marinette, Oconto, Outagamie, Sheboygan, and Winnebago counties.
- Northwest Region: Ashland, Barron, Bayfield, Buffalo, Burnett, Chippewa, Clark, Douglas, Dunn, Eau Claire, Jackson, Pepin, Pierce, Polk, Rusk, St. Croix, Sawyer, Taylor, Trempealeau, and Washburn counties.
- Southeast Region: Kenosha, Milwaukee, Ozaukee, Racine, Walworth, Washington, and Waukesha counties.
- Southwest Region: Columbia, Crawford, Dane, Dodge, Grant, Green, Iowa, Jefferson, Juneau, La Crosse, Lafayette, Monroe, Richland, Rock, Sauk, and Vernon counties.

ATTACHMENT 3


Projects Added and Advanced -- 2021-23 Governor's Budget Recommendation for SHR (as Intended)

<u>Primary County</u>	<u>Project ID</u>	<u>Primary Highway</u>	<u>Limits</u>	<u>Mileage</u>	<u>Old Year</u>	<u>New Year</u>	<u>Concept</u>	<u>Low</u>	<u>High</u>
Vernon	5160-06-70	STH 35	V Stodard N Limit to N County Line	4.09	2022	2022*	Resurface	\$1,000,000	\$1,999,999
Monroe	5130-05-63	STH 131	STH 71 to CTH A / B-41-21,-136,-137	4.69	2023	2023*	Resurface	1,000,000	1,999,999
Washington	3360-17-70	VAR HWY	STH 175 and STH 167	0.01	2022	2022*	Misc.	750,000	999,999
Ozaukee	1040-00-70	STH 57	IH-43 to CTH W	1.09	2022	2022*	Pavement Preservation	1,000,000	1,999,999
Dane	1011-01-75	IH 39	.55 Mi S CTH V to N County Line	1.01	2022	2026	Pavement Replacement	2,000,000	2,999,999
Marathon	1166-00-83	IH 39	Portage Co. Line to Maple Ridge Rd. NB	9.4	2023	2024	Resurface	3,000,000	3,999,999
Waupaca	1510-02-74	USH 10	STH 49 / STH 110 Interchange	0.43	2023	2027	Resurface	500,000	749,999
Waupaca	6210-01-74	STH 49	Arndt Road to USH 10	1.34	2023	2027	Resurface	750,000	999,999
Fond du Lac	6100-08-60	STH 44	WCL-STH 49	3.59	2023	2024	Resurface	1,000,000	1,999,999
Rusk	1580-00-70	USH 8	Little Soft Maple CR BRG B-54-0131	0.01	2023	2025	Bridge Replacement	1,000,000	1,999,999

*Project would likely be deferred if purchasing power were not maintained.

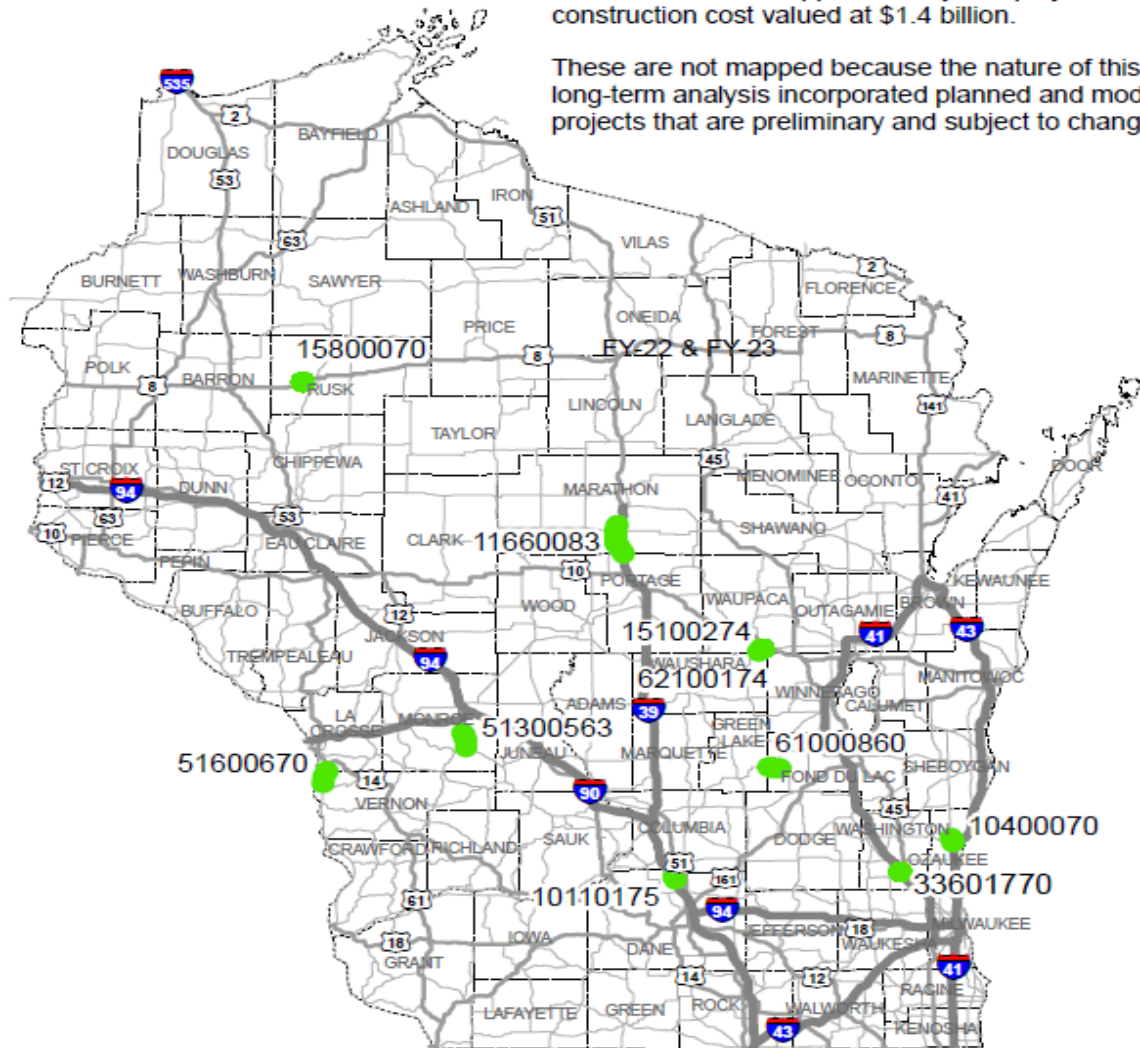
ATTACHMENT 4

Project Impacts if Inflationary Increase Occurs

 Project locations advanced into FY-22 and FY-23 if purchasing power is maintained

For FY-24 through FY-31, maintaining purchasing power is estimated to add approximately 150 projects having construction cost valued at \$1.4 billion.

These are not mapped because the nature of this long-term analysis incorporated planned and modeled projects that are preliminary and subject to change.





Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

June, 2021

Joint Committee on Finance

Paper #606

Major Highway Development Program (Transportation – State Highway Program)

[LFB 2021-23 Budget Summary: Page 582, #4]

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. In the 2019-21 biennium, a total of \$565.6 million was provided for the major highway development program.

A major highway development project is, with certain exceptions, any improvement project that either has a total cost in excess of \$108,700,000, or, that has a total cost in excess of \$43,500,000 and expands highway capacity. For this purpose, capacity expansion includes: (a) construction of a new highway of 2.5 miles or more in length; (b) relocation of 2.5 miles or more of existing roadway; (c) the addition of one or more lanes at least five miles in length; or (d) the improvement of 10 miles or more of an existing divided highway to freeway standards. Projects exceeding the \$108,700,000 threshold must be approved by the Transportation Projects Commission (TPC) prior to the Department of Transportation (DOT) beginning construction. Projects exceeding the \$43,500,000 cost threshold, and meeting the capacity expansion definitions, must be enumerated in the statutes prior to construction which can only happen after approval by the TPC. Highway rehabilitation projects are considered major highway projects if they have an estimated cost exceeding \$108.7 million. Exceptions to these standards are provided for southeast Wisconsin freeway megaprojects (exceeding \$727.6 million), high-cost bridge projects (exceeding \$150 million), and major interstate bridge projects (with the state's share over \$100 million).

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. As shown in Attachment 1, the major highway development program has, historically, been second largest of these programs, with a proportionate share of program funding over the past decade generally in the range of 20% to 30% of the total funding for these three programs.

2. Major highway projects that meet the statutory capacity expansion thresholds must be enumerated in the statutes before DOT can begin construction. Potential projects are considered for enumeration by the Transportation Projects Commission, 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 projects should be advanced for enumeration. The TPC then makes a recommendation to the Governor and Legislature regarding project enumeration. 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.

3. There are two statutory restrictions on the TPC's recommendations for capacity expansion projects. First, the TPC is prohibited from recommending a project for enumeration unless the project, along with all other enumerated projects, can be started within six years following the project's enumeration, assuming a constant, real-dollar program size throughout the period. [The Commission, however, may recommend a project that could not otherwise be started within the six-year time period if it also recommends a funding proposal for the major highway development program that would allow the project to be started in six years.] No projects were recommended for enumeration between 2002 and 2008 in part because of this restriction, although four projects were enumerated in the 2003-05 biennial budget without being recommended by the TPC (the requirement for projects to be recommended by the TPC prior to enumeration was enacted later in the 2003-05 biennium). Second, the TPC is prohibited from recommending a project for enumeration unless a final environmental impact statement or assessment has been approved by the Federal Highway Administration (FHWA). This requirement is intended to ensure that potential projects can be completed within a reasonable time of enumeration and that the TPC has reasonably complete information on the cost and impacts of the project.

Recent Project Developments

4. The TPC did not meet between December, 2014, and December, 2019. Given the substantial amount of time that elapsed, the future costs associated with approved and enumerated projects had begun to dwindle. However, the TPC has become more active in the 2019-21 biennium, meeting in both December, 2019, and December, 2020, as it begins to approve projects as others conclude.

5. At the December, 2020, meeting, following the recommendation of the Department, the

TPC approved the removal of two projects previously approved for environmental study because it was determined narrower-scoped improvements could instead be completed for these facilities as part of the state highway rehabilitation program. The removed projects include: (a) reconstructing I-94 from USH 12 to STH 65 in St. Croix County; and (b) expanding USH 12 from STH 59 in Whitewater to STH 67 in Elkhorn in Walworth County.

6. In addition, due to increasing congestion and safety concerns, at the recommendation of the Department, the TPC approved restarting an environmental study of an improvement project to 56.3 miles of I-39/90/94 from USH 12 in Madison to USH 12 in the Wisconsin Dells. The previous environmental assessment was cancelled in March, 2017, by the FHWA. Including this project, there are now three major highway development projects being formally studied. The other two projects include: (a) 18.7 miles of USH 12 from USH 14 to CTH N (Madison Beltline) in Dane County; and (b) 11 miles of USH 51 from USH 12 to STH 19 (Stoughton Road) in Dane County. The total estimated costs remaining to complete these studies is \$28.9 million according to the Department's February, 2021, TPC report.

7. At the December, 2020, meeting, the TPC also approved two projects for construction as high-cost projects in the major highway development program based on the recommendation of the Department: (a) replacing the existing I-39/90/94 bridges over the Wisconsin River in Columbia County to improve the structural integrity of the bridges and allow for a potential, future expansion to four lanes in each direction, estimated to cost \$144.4 million; and (b) reconstructing 18.6 miles of USH 51 from I-39/90 in Stoughton to USH 12/18 in McFarland in Dane County to address safety and congestion issues, deteriorated pavement, and a lack of bicycle and pedestrian accommodations, for which the costs are to be announced in August, 2021, but are estimated to exceed \$174.1 million. The two projects approved do not require enumeration to begin construction because they were approved as high-cost projects that do not meet the statutory capacity expansion thresholds. The Department estimates the I-39/90/94 bridge project could be open to traffic in 2026, while the USH 51 project schedule is expected to be announced in August, 2021.

8. The 2019-21 biennial budget act enumerated two projects as major highway development projects: (a) the I-43 project between Silver Spring Drive and STH 60 in Milwaukee and Ozaukee counties, which has an estimated cost of \$556.3 million; and (b) the I-41 project between STH 96 in the town of Grand Chute and CTH F in the town of Lawrence, located in Outagamie and Brown counties. At the time of enumeration for the I-41 project, the project did not have an approved environmental document or a formal cost estimate.

9. Two projects were completed in the 2019-21 biennium: (a) a project, enumerated in 2011, from Winnebago CTH CB to Oneida Street on USH 10 and STH 441 in Calumet and Winnebago counties, which cost \$378.0 million and opened to traffic in November, 2019; and (b) a project, approved in 2011, on USH 18/151 on the Madison Beltline by Verona Road in Dane County, which cost \$263.1 million and opened to traffic in October, 2020.

10. Estimated project expenditures in the Department's most recent report to the TPC in February, 2021, show that remaining inflation-adjusted program costs total \$910.7 million (\$586.3 million in the 2021-23 biennium and \$324.4 million beyond the upcoming biennium), although two projects do not yet have a formal cost estimate. The largest known amount of remaining project costs in the major highway development program are associated with the I-43 project in Milwaukee and

Ozaukee counties. The project has an estimated total cost of \$556.3 million, with an estimated remaining cost of \$505.4 million in the 2021-23 biennium. The I-43 project includes the reconstruction of 14 miles of the interstate from Silver Spring Drive in Glendale in Milwaukee County to STH 60 in Grafton in Ozaukee County, including the expansion of the current four lanes to six lanes. According to the Department, this is the busiest four-lane freeway in Wisconsin. Construction is expected to be substantially let in the 2021-23 biennium, with construction ongoing after 2022-23. While its final cost estimate is not yet known, the I-41 project will likely have significant costs for the majors program in future biennia.

11. Each February and August, DOT is required to submit a report to the TPC that provides project cost information and an ongoing expenditure schedule for planned work in the major highway development and southeast Wisconsin freeway megaprojects programs. As shown in the table below, the Department's February, 2021, report to the TPC indicated that total project costs of \$586.3 million are expected in the biennium in order to fund planned major highway development expenditures.

TABLE 1

**Major Highway Development Program
Planned Expenditures
(\$ in Millions)**

	February, 2021, TPC Report*		
	<u>2021-22</u>	<u>2022-23</u>	<u>Biennium</u>
Planned Expenditures -- Existing Projects			
I-43: Silver Spring Dr. - STH 60	\$266.6	\$238.8	\$505.4
I-41: STH 96 - Brown CTH F**	7.0	35.5	42.5
USH 51: I-39/90 - USH 12/18**	8.0	3.0	11.0
STH 23: STH 67 - USH 41	7.0	2.3	9.3
I-39/90/94: Bridges over Wisconsin River	3.0	4.1	7.1
STH 50: I-41/94 - 43rd Ave	3.1	0.0	3.1
USH 53: La Crosse Corridor	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Subtotal	\$302.6	\$283.7	\$586.3

*Reflects inflation-adjusted costs estimates reported by DOT to the TPC in February, 2021.

**A final cost estimate for this project has not yet been conducted.

Transportation Fund Concerns, Bonding and Debt Service

12. While the 2019-21 budget increased revenues to the transportation fund, the coronavirus pandemic has dampened the impact of those revenue increases to the fund, as well as to ongoing base level revenues. Thus, in compiling the 2021-23 budget, the Governor recommends, significant reduction to the base level SEG funding for the SHR program and the southeast Wisconsin freeway megaprojects program, which freed up SEG funding to fund the local supplement program, as well as providing other SEG funding increases to general transportation aid, transit programs, state highway maintenance, and to the State Patrol. The Governor recommends replacing the SEG funding with \$318.5 million in SEG-supported general obligation bonds for the SHR program (\$278.5 million) and the megaprojects program (\$40.0 million).

13. In an earlier action, the Committee adopted the adjusted base level funding amounts as the starting point for its 2021-23 transportation budget actions under Assembly Substitute Amendment 1 (ASA 1) to AB 68/Senate Substitute Amendment 1 (SSA1) to SB 111. This action provides base level SEG funding for the state highway improvement programs, and all other DOT programs. As a result, expenditures from the transportation fund are significantly higher than under the Governor's recommendations. Subsequently, under Motion #24, the Committee by adopting standard budget adjustments and reestimates of sum sufficient debt service appropriations reduced SEG appropriations by \$46.5 million in 2021-22 and \$31.4 million in 2022-23. However, despite these earlier actions and slightly higher estimated revenues, the estimated 2022-23 ending balance for the transportation fund is estimated at -\$32.3 million under the ASA 1/SSA 1. This projected negative balance is prior to funding any of the Governor's 2021-23 biennial budget recommendations. Thus, under current estimates, the availability of transportation fund revenues to fund above-base transportation programming is limited. Additional reductions to base level funding, and/or the authorization of bonding in lieu of SEG funding for the state highway improvement program would be needed to balance the fund in the 2021-23 biennium under the substitute amendments.

14. The state transportation fund provides funding for a variety of state operations, like Division of Motor Vehicles services and State Patrol, as well improvements and maintenance of the state's highway infrastructure. In addition, the fund provides SEG monies for the local transportation operations primarily through general transportation aids and mass transit operating assistance as well as for a variety of local infrastructure improvement programs. Several of these programs have received SEG funding increases in recent biennia. Such SEG funding from the transportation fund that is allocated or committed to local programs, especially on an ongoing basis, reduces the amount of SEG funding available to fund DOT operations and the state highway improvement program. The question then arises as to whether the state's transportation fund has the financial ability to support both local highway infrastructure and the state highway infrastructure. On the other hand, since the 2005(06) property tax year, the Department of Revenue (DOR) has administered a levy limit program that restricts the year-to-year increases in county and municipal property tax levies, which some contend inhibits the ability of local governments to raise the revenue needed to maintain and rehabilitate their transportation infrastructure.

15. While revenues are expected to be higher in the biennium compared to last biennium, primarily due to the fully implemented title and registration fee increases enacted under 2019 Act 9, the pandemic has dampened the anticipated amount of revenue growth to the fund in the biennium relative to the revenues projected during 2019 Act 9 deliberations. As the Governor recommends, bonding would likely have to be used to replace of SEG "cash" removed from the state highway improvement program in order to maintain the needed level of investment in the system. While some level of SEG-supported bonding is necessary to fund long-term highway infrastructure improvements, such heavy reliance on bonding for the state highway improvement program due to limited SEG funds being available, whether as a result of limited revenue growth to the fund, or the significant use of SEG funding for other purposes such as the increases to local transportation programs, will continue to be a concern.

16. From 2009-10 through 2016-17, the transportation fund-supported debt service as a percentage of gross transportation fund revenue (excluding federal aid, bond revenue, and transfers

from other funds) increased from 10.9% to 19.0% due to the heavy reliance on borrowing prior to, and during, that period. Since that time, due to less reliance on bonding in recent biennia, along with the 2019 Act 9 revenue increases, debt service as a percentage of revenue has decreased to 18.5% and is expected to decrease to 17.2% by the end of 2020-21. Under the Governor's recommendations, this percentage would increase to 17.3% in 2021-22 and 18.1% in 2022-23, primarily as a result of the large amount of SHR bonding being recommended. In the 2021-23 biennium, the Department is scheduled to retire an estimated \$464.6 million in transportation fund-supported bonds (\$283.3 million in transportation revenue bonds and \$181.3 million in transportation fund-supported, general obligation bonds). Maintaining a transportation fund-supported borrowing level less than this amount would have the effect of improving the ratio of debt service to gross revenues in the transportation fund.

17. Under Motion #24, the Committee earlier approved standard budget adjustment (SBA) reductions to the major highway development program of \$868,700 SEG annually and \$136,900 FED annually. Table 2 below shows the effect of Motion #24 on the major highway development program funding level prior to further Committee action.

TABLE 2
2021-23 Major Highway Development Program
Committee Base Budget Changes

	<u>SEG</u>	<u>FED</u>	<u>Total</u>
Adjusted Base Funding Level	\$50,618,200	\$343,343,200	\$393,961,400
Motion #24 Program Prior to Further JFC Action	<u>-1,737,400</u>	<u>-273,800</u>	<u>-2,011,200</u>
	\$48,880,800	\$343,069,400	\$391,950,200

18. The availability of transportation fund revenue to fund any of the alternatives described in this paper would depend on other actions taken by the Committee relative to the use of available SEG funds. This would include actions relating to above base SEG funding increases for local transportation programs, state highway maintenance, and State Patrol, and the level of SEG funding needed in the biennium to support transportation-related debt authorized for the 2021-23 biennium.

Funding Level

19. The alternatives presented in this paper include the Governor's 2021-23 biennial budget recommendations, an alternative utilizing existing transportation revenue bond authority to lower the amount of new bonding required, and a 2020-21 base level budget scenario. Table 3 below provides a comparison of the program's funding levels under each alternative discussed in this paper.

TABLE 3**Potential 2021-23 Major Highway Development Program
Funding Levels**

<u>Potential Funding Levels*</u>	<u>SEG</u>	<u>FED</u>	<u>Authorized Transportation Revenue Bonds***</u>	<u>Total</u>
Base Budget (Alt. 3)**	\$48,880,800	\$343,069,400	\$0	\$391,950,200
Governor (Alt. 1)	50,223,200	366,353,600	149,023,200	565,600,000
Existing TRB Auth. (Alt. 2)	50,223,200	366,353,600	128,258,200	544,835,000

*Amounts shown comprise all major highway development recommendation items, including adjustments to the base and standard budget adjustments.

**As modified by earlier actions of the Committee in May, 2021.

***Does not include existing transportation revenue bond authority of \$33,765,000 (Alt. #3) or \$20,765,000 (Alt. #2).

20. The Governor's recommendation of \$565.6 million provides \$20.7 million less for the majors projects in the 2021-23 biennium than the \$586.3 million identified in the report's cost schedule (see Table 1). However, DOT indicates there is sufficient existing SEG carryover funding to fully fund the \$586.3 million in planned expenditures if the program is funded at the Governor's recommendation in the 2021-23 biennium. Therefore, Alternative 1 and 2 listed in Table 3, and discussed in this paper, would provide funding sufficient to fund the current 2021-23 TPC cost schedule.

21. As part of the \$565.6 million recommended, the Governor recommends an increase to the statutory transportation revenue bond authority of \$149.0 million. Estimated reductions to transportation fund revenue, associated with the partial issuance of the bonds under the Governor's recommendations would equal \$943,900 in 2021-22, and \$6,978,200 in 2022-23. Once fully issued, estimated debt service on the bonds associated with this alternative would equal \$11,958,100 annually. The Governor's recommendations for the major highway development program for the 2021-23 biennium are shown in the table below. [Alternative 1]

TABLE 4

**Major Highway Development Program Funding --
2021-23 Governor's Recommendations**

<u>Fund</u>	<u>Alternative 1*</u>		<u>Biennial Total</u>
	<u>2021-22</u>	<u>2022-23</u>	
SEG	\$25,111,600	\$25,111,600	\$50,223,200
FED	182,176,800	184,176,800	366,353,600
Trans. Rev. Bonds/SEG-S	<u>75,511,600</u>	<u>73,511,600</u>	<u>149,023,200</u>
Total	\$282,800,000	\$282,800,000	\$565,600,000

*Amounts shown comprise all major highway development recommendation items, including adjustments to the base and standard budget adjustments.

<u>Debt Service (Alternative 1)</u>			
<u>2021-22</u>	<u>2022-23</u>	<u>Biennial Total</u>	<u>Annualized Once Fully Issued</u>
\$943,900	\$6,978,200	\$7,922,100	\$11,958,100

22. Under Series 2021-A, DOA Capital Finance issued transportation revenue bonds that generated net proceeds that resulted in \$182,255,000 being available to fund DOT highway and administrative facility costs. However, \$33,765,000 of those proceeds, which were used to fund projects, were associated with bond premium proceeds rather than existing bonding authority. As a result, an additional \$33,765,000 in existing TRB bonding authority remains uncommitted to any highway or administrative facility projects. As with the 2019-21 biennium, the Committee may want to fund the administrative facilities program (discussed in a separate issue paper) with some of this existing transportation revenue bond authority. This program is recommended to be funded at \$13.0 million in the 2021-23 biennium by both the Department and the Governor in order to complete priority projects. Accounting for \$13.0 million of the existing authority being allocated to the administrative facilities program, \$20,765,000 could be used to fund the major highway development program in the biennium, which would require a lesser amount of new bonding authority than is recommended by the Governor.

23. If the Committee were to designate \$20,765,000 in existing bonding authority to fund major highway development projects in the biennium, the Committee would also have to provide \$10,382,500 SEG-S funding in each year in order to provide DOT the expenditure authority to expend those bond proceeds (this would be the same SEG-S appropriations as the Governor recommends). Because the total bond issuance in the biennium under this alternative would equal the total amount recommended by the Governor (with different compositions of new versus existing authority), estimated reductions in transportation fund revenue associated with the issuance of these bonds would be the same as under the Governor's recommendations. Thus, estimated reductions to transportation fund revenue, associated with the partial issuance of the bonds under this alternative would again equal \$943,900 in 2021-22, and \$6,978,200 in 2022-23. Once fully issued, estimated debt service on

the bonds associated with this alternative would equal \$11,958,100 annually. The following table details the biennial funding under the alternative that provides \$20,765,000 in existing bonding authority to the major highway development program to fund the program at the level required to maintain the cost schedule in the February, 2021, TPC report but with a smaller amount of new bond authorizations. [Alternative 2]

TABLE 5

**Major Highway Development Program Funding --
2021-23 - Use of Existing Bond Authority Alternative**

<u>Fund</u>	<u>Alternative 2*</u>		<u>Biennial Total</u>
	<u>2021-22</u>	<u>2022-23</u>	
SEG	\$25,111,600	\$25,111,600	\$50,223,200
FED	182,176,800	184,176,800	366,353,600
Trans. Rev. Bonds/SEG-S	65,129,100	63,129,100	128,258,200
Existing Rev. Bonds/SEG-S	<u>10,382,500</u>	<u>10,382,500</u>	<u>20,765,000</u>
Total	\$282,800,000	\$282,800,000	\$565,600,000

*Amounts shown comprise all major highway development recommendation items, including adjustments to the base and standard budget adjustments.

<u>Debt Service (Alternative 2)</u>			
<u>2021-22</u>	<u>2022-23</u>	<u>Biennial Total</u>	<u>Annualized Once Fully Issued</u>
\$943,900	\$6,978,200	\$7,922,100	\$11,958,100

24. Under a base budget, the composition of program funding (SEG and FED) reflects the 2020-21 base year, plus the standard budget adjustments adopted by the Committee. The base budget alternative would provide less total funding compared to the Governor's recommended level, but could utilize the \$33,765,000 in existing revenue bond authority in the biennium (base SEG-S authority would remain at \$86,587,300, an amount much higher than the \$33,765,000 in available bonding proceeds in the biennium under this alternative). However, this alternative would not fully fund the current TPC cost schedule for the 2021-23 biennium and would lead to project delays. Estimated reductions to transportation fund revenue, associated with the partial issuance of the existing revenue bonds under the Governor's recommendations would equal \$422,100 in 2021-22, and \$2,709,400 in 2022-23. If the Committee took no action, Table 6 below displays the major highway development program funding level in the biennium.

TABLE 6

**Major Highway Development Program Funding --
2021-23 TPC Funding Level
Base Budget Alternative**

<u>Fund</u>	<u>Alternative 3*</u>		<u>Biennial Total</u>
	<u>2021-22</u>	<u>2022-23</u>	
SEG	\$24,440,400	\$24,440,400	\$48,880,800
FED	171,534,700	171,534,700	343,069,400
Existing Rev. Bonds	<u>16,882,500</u>	<u>16,882,500</u>	<u>33,765,000</u>
Total	\$212,857,600	\$212,857,600	\$425,715,200

*As modified by earlier actions of the Committee under Motion #24 in May, 2021.

<u>Debt Service (Alternative 3)</u>			
<u>2021-22</u>	<u>2022-23</u>	<u>Biennial Total</u>	<u>Annualized Once Fully Issued</u>
\$422,100	\$2,709,400	\$3,131,500	\$2,709,400

25. As noted, DOT has available approximately \$33.8 million in authorized, but unissued transportation revenue bond authority. If the major highway development program were to be funded at base level and utilize this in existing transportation revenue bond authority, the Committee would not be able to fund the administrative facilities program using existing transportation revenue bond authority, as it did in the 2019-21 biennium. This program is recommended to be funded at \$13.0 million in the 2021-23 biennium by both the Department and the Governor in order to complete priority projects. Thus, \$13.0 million in new bonding authority would have to be provided if the Committee chose to fund DOT's administration facilities program.

Other Factors Related to Program Funding

26. In 2019-21 budget discussions, the Department noted that the state highway rehabilitation program's funding level has a significant impact on highway conditions. However, DOT has also stressed that major highway development and southeast Wisconsin freeway megaprojects must also be funded at a sufficient level in order to avoid spillover effects that would negatively affect these highway conditions over time. Although both of these programs typically deal with capacity expansion issues, these reconstruction projects eliminate the highway rehabilitation needs on those redeveloped highways. Absent sufficient funding for the majors and megaprojects programs, additional pressure would be placed on state highway rehabilitation program funding, primarily due to significant age-related infrastructure issues in the southeast region of the state, as well as other regions of the state.

27. Lastly, it should be again noted that DOT has approximately \$33.8 million of its existing transportation revenue bond authority that remains uncommitted. In addition to providing any of the funding levels for alternatives described in this paper, the Committee could elect to use the existing

authority to offset the level of bonding (or other funds) that would be required to fund those alternatives. However, as noted, the Committee may want to utilize some of the existing authority for the administrative facilities program (recommended by the Department and Governor to be funded at \$13.0 million in the 2021-23 biennium) as it did in the 2015-17 and 2019-21 biennia.

28. The availability of transportation fund revenue to fund any of the alternatives described in this paper would depend on other actions taken by the Committee relative to SEG revenue to the fund, overall state highway improvement program SEG funding, local transportation program SEG funding, and the level of transportation fund-supported debt authorized for the 2021-23 biennium.

ALTERNATIVES

1. Make the following changes to major highway development program funding in order to provide a 2021-23 funding level of \$565,600,000: (a) increases of \$671,200 SEG annually; (b) increases of \$10,642,100 FED in 2021-22 and \$12,642,100 FED in 2022-23; and (c) decreases of \$11,075,700 SEG-S (revenue bond proceeds) in 2021-22 and \$13,075,700 SEG-S in 2022-23. This would require the Committee to increase the statutory transportation revenue bond authority associated with this funding level to authorize \$149,023,200 in new bonding. Estimate reductions to transportation fund revenue, associated with the partial issuance of these bonds, of \$943,900 SEG-REV in 2021-22, and \$6,978,200 SEG-REV in 2022-23. Once fully issued, estimated transportation fund revenue reductions associated with this alternative would equal \$12.0 million annually. This funding reflects the change to base level funding as modified by standard budget adjustments made under earlier actions of the Committee.

ALT 1	Change to Base	
	Revenue	Funding
SEG	- \$7,922,100	\$1,342,400
FED	0	23,284,200
SEG-S	0	- 24,151,400
TRB-SEG	0	<u>149,023,200</u>
Total	- \$7,922,100	\$149,498,400

2. Make the following changes to major highway development program funding in order to provide a 2021-23 funding level of \$565,600,000: (a) increases of \$671,200 SEG annually; (b) increases of \$10,642,100 FED in 2021-22 and \$12,642,100 FED in 2022-23; and (c) decreases of \$11,075,700 SEG-S (revenue bond proceeds) in 2021-22 and \$13,075,700 SEG-S in 2022-23. This would require the Committee to increase the statutory transportation revenue bond authority associated with this funding level to authorize \$128,258,200 in new bonds, and to allocate \$20,765,000 in existing authority for these purposes. Estimate reductions to transportation fund revenue, associated with the partial issuance of these bonds, of \$943,900 SEG-REV in 2021-22, and \$6,978,200 SEG-REV in 2022-23. Once fully issued, estimated transportation fund revenue reductions associated with this alternative would equal \$12.0 million annually. This funding reflects the change to base level funding as modified by standard budget adjustments made under earlier actions of the Committee.

ALT 2	Change to Base	
	Revenue	Funding
SEG	- \$7,922,100	\$1,342,400
FED	0	23,284,200
SEG-S	0	- 24,151,400
TRB-SEG	<u>0</u>	<u>128,258,200</u>
Total	- \$7,922,100	\$128,733,400

3. Take no action. A base level funding of \$425,715,200 would remain. Estimate reductions in transportation fund revenues of \$422,100 SEG-REV in 2021-22 and \$2,709,400 SEG-REV in 2022-23 associated with debt service on bonds that would be issued under the Department's existing revenue bond authority. This funding reflects the change to base level funding as modified by the standard budget adjustments made under earlier actions of the Committee.

ALT 3	Change to Base	
	Revenue	
SEG	- \$3,131,500	

Prepared by: Nick Lardinois
Attachment

ATTACHMENT

**Recent Biennial Funding Levels for Three Main 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>
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	1,626.2	563.7	535.6	2,725.7
2019-21	1,937.8	564.2	226.4	2,728.4
2021-23*	\$2,004.5	\$565.6	\$82.0	\$2,652.1

<u>Biennium</u>	<u>State Highway Rehabilitation</u>	<u>Major Highway Development</u>	<u>Southeast Wisconsin Freeways</u>	<u>Total</u>
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	59.7	20.7	19.6	100.0
2019-21	71.0	20.7	8.3	100.0
2021-23*	75.6%	21.3	3.1%	100%

*Governor's budget recommendation after correcting for technical errata, excluding the design build bonding recommendation, which could be used for any of the components of the state highway improvement program.



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

June, 2021

Joint Committee on Finance

Paper #607

Southeast Wisconsin Freeway Megaprojects (Transportation – State Highway Program)

[LFB 2021-23 Budget Summary: Page 584, #5 and Page 586, #6]

CURRENT LAW

With the enactment of 2011 Act 32, the 2011-13 budget act, 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 \$727.6 million in 2020 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 \$226.4 million was provided for southeast Wisconsin freeway megaprojects in the 2019-21 biennium. This amount was comprised of \$63.3 million in state funds, \$95.0 million in general fund-supported, general obligation bonds, and \$68.1 million of federal funds. Of the total amount, \$195.0 million was allocated for the north leg of the Zoo Interchange project, which is the final segment to complete the \$1,541.5 million project. Of the remaining \$31.4 million allocated in the 2019-21 biennium, \$11.4 million was allocated to additional work on the Zoo Interchange and I-94 North-South projects for costs for which bonds and federal aid may not be used. The remaining \$20.0 million was made available to reinstate work on the I-94 East-West expansion project, which is anticipated to be the next southeast Wisconsin freeway megaproject, after its federal approval was rescinded in September 2017 at the request of the Department of Transportation (DOT).

DISCUSSION POINTS

Background

1. There are three main components of the state highway improvement program: (a) the state highway rehabilitation (SHR) program; (b) the major highway development program; and (c) the southeast Wisconsin freeway megaprojects ("southeast megaprojects") program. As shown in the attachment, 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 typically ranging between 5% and 20%.

2. There are two, ongoing southeast 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 involved 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, 2021, total inflation-adjusted project costs are estimated at \$1,602.5 million, of which only \$0.5 million is expected to be encumbered in 2021-22, after which the project will be officially complete. The mainline on I-94 was opened to traffic in May, 2020, which is generally consistent with the public's perception of project completion. 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, 2021, total inflation-adjusted project costs of the Zoo Interchange project are estimated as \$1,541.5 million, of which \$160.0 million is expected to remain in the 2021-23 biennium. The Department let the final component of this project, known as the "north leg" in October, 2020, and anticipate the mainline to be open to traffic in October, 2023. Neither of these projects need additional funding in the biennium to be completed.

3. With regard to the age and condition of southeast Wisconsin freeways, DOT indicated in 2019 that the interstate system in the seven-county, southeast megaprojects program area includes 710 bridges, of which 417 are the original bridges from when the system was initially constructed. Five corridors (I-94 East-West [Milwaukee County], I-894 Bypass, I-94 East-West freeway [Waukesha County], I-43 Howard to Silver Spring Drive, and I-41 Burleigh to the Richfield Interchange) make up 385 lane miles and 278 of the 710 bridges in DOT's southeast region. On these five corridors alone, there are 278 bridges, of which 224 need to be replaced by 2040. These five corridors represent the next five southeast Wisconsin freeway megaprojects, with a total, estimated cost in the range of \$5 billion (not adjusted for inflation). The Department has estimated that a "replace-in-kind" approach to these projects would cost approximately 60% to 80% of the amount it would take to expand and modernize these corridors. However, the Department believes that a "replace in kind" approach would not result in appreciable safety and mobility benefits as compared to the current system.

4. The I-94 East-West project in Milwaukee County is the next anticipated southeast megaproject, but would need to be enumerated prior to the commencement of construction activities. The Department requested and the Governor recommends the enumeration of I-94 East-West in the 2021-23 biennial budget. As noted, the currently enumerated projects have been allocated all of the funding necessary for completion. Therefore, any 2021-23 funding provided to the southeast

megaprojects program is expected to be used on the I-94 East-West project. 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. The project previously received the necessary federal approval in September, 2016. The preferred project alternative at that time was an eight-lane replacement of the current six-lane facility, at an estimated cost of \$1,106 million (as estimated in 2016).

5. Although environmental study and federal approval for this project were completed and the preferred alternative selected, on September 29, 2017, then-DOT Secretary Ross requested that the Federal Highway Administration rescind the project's federal approval due the project not receiving the required statutory enumeration and lack of available funding. In order to reinstate this decision, DOT would need to complete some additional work on the project's environmental documentation and resubmit the project's record of decision (approval) to the Federal Highway Administration for reinstatement. As part of the 2019-21 biennial budget, \$20.0 million was provided to DOT to reinitiate work on the I-94 East-West project, including work necessary to receive a new federal record of decision. In July, 2020, the Governor announced that DOT would seek federal approval to resume the project. Subsequently, in April, 2021, the Department announced the project would undergo a supplemental EIS, which will likely result in a federal record of decision on the project in late 2022 or early 2023.

Transportation Fund Concerns, Bonding and Debt Service

6. While the 2019-21 budget increased revenues to the transportation fund, the coronavirus pandemic has dampened the impact of those revenue increases to the fund, as well as to ongoing base level revenues. Thus, in compiling the 2021-23 budget, the Governor recommends a significant reduction to the base funding level for the SHR program and the southeast Wisconsin freeway megaprojects program, which would free up SEG funding to fund other recommendations, including a local supplemental grant program, as well as providing other SEG funding increases to general transportation aid, transit programs, state highway maintenance, and to the State Patrol. The Governor recommends replacing the SEG funding reduction to the SHR and southeast megaprojects programs with \$318.5 million in SEG-supported general obligation bonds for the SHR program (\$278.5 million) and the megaprojects program (\$40.0 million).

7. In an earlier action, the Committee adopted the adjusted base level funding amounts as the starting point for its 2021-23 transportation budget actions under Assembly Substitute Amendment 1 (ASA 1) to AB 68/Senate Substitute Amendment 1 (SSA 1) to SB 111. This action reinstated the base level SEG funding for the state highway improvement programs, and all other DOT programs. As a result, SEG expenditures from the transportation fund are significantly higher than under the Governor's recommendations. Subsequently, under Motion #24, the Committee adopted standard budget adjustments and reestimates of sum sufficient debt service appropriations that reduced appropriations by \$46.5 million in 2021-22 and \$31.4 million in 2022-23. Despite these earlier actions and slightly higher estimated revenues, the estimated 2022-23 ending balance for the transportation fund is estimated at -\$32.3 million under the ASA 1/SSA 1. This projected negative balance is prior to providing funding to any of the Governor's 2021-23 biennial budget recommendations or authorizing any bonding for the highway program. Thus, under current

estimates, the availability of transportation fund revenues to fund above-base transportation programming is limited. Additional reductions to base level funding, and/or the authorization of bonding in lieu of SEG funding for the state highway improvement program would be needed to balance the fund in the 2021-23 biennium under the substitute amendments.

8. The state transportation fund provides funding for a variety of state operations, like Division of Motor Vehicles services and State Patrol, as well maintenance of the state's highway infrastructure. In addition, the fund provides SEG monies for the local transportation operations primarily through general transportation aids and mass transit operating assistance as well as for a variety of local infrastructure improvement programs. Several of these programs have received SEG funding increases in recent biennia. Such SEG funding from the transportation fund that is allocated or committed to local programs, especially on an ongoing basis, reduces the amount of SEG funding available to fund DOT operations and the state highway improvement program. The question then arises as to whether the state's transportation fund has the financial ability to support both local highway infrastructure and the state highway infrastructure. However, since the 2005(06) property tax year, the Department of Revenue (DOR) has administered a levy limit program that restricts the year-to-year increases in county and municipal property tax levies, which inhibits the ability of some local governments to raise the revenue needed to maintain and rehabilitate their transportation infrastructure. As a result, state assistance for local transportation facilities and services may be warranted.

9. While revenues are expected to be higher in the biennium compared to last biennium, primarily due to the fully implemented title and registration fee increases enacted under 2019 Act 9, the pandemic has dampened the anticipated amount of revenue growth to the fund in the biennium relative to the revenues projected during 2019 Act 9 deliberations. If SEG funding is provided for local transportation purposes, as the Governor recommends, SEG "cash" would have to be removed from the state highway improvement program. Some level of SHR bonding will likely then be needed to replace the SEG "cash" in order to maintain the needed level of investment in the state highway system. While some level of SEG bonding is necessary to fund long-term highway infrastructure improvements, any heavy reliance on bonding for the state highway improvement program due to limited SEG funds being available, whether as a result of limited revenue growth to the fund or the significant use of available SEG funding for other purposes such as a local transportation programs recommended by the Governor, will continue to be a concern.

10. From 2009-10 through 2016-17, the transportation fund-supported debt service as a percentage of gross transportation fund revenue (excluding federal aid, bond revenue, and transfers from other funds) increased from 10.9% to 19.0% due to the heavy reliance on borrowing prior to, and during, that period. Since that time, due to less reliance on bonding in recent biennia, along with the 2019 Act 9 revenue increases, debt service as a percentage of revenue has decreased to 18.5% and is expected to decrease to 17.2% by the end of 2020-21. Under the Governor's recommendations, this percentage would increase to 17.3% in 2021-22 and 18.1% in 2022-23, primarily as a result of the large amount of SHR, SEG-supported bonding (\$278.5 million) being recommended. Reductions in SEG "cash" for the state highway program with a heavy reliance on bonding, will inevitably lead to the dilemma that the SEG funds needed to repay those bonds will again diminish the SEG funds available for transportation programming going forward. In the 2021-23 biennium, the Department is

scheduled to retire an estimated \$464.6 million in transportation fund-supported bonds (\$283.3 million in transportation revenue bonds and \$181.3 million in transportation fund-supported, general obligation bonds). Maintaining a transportation fund-supported borrowing level less than this amount until the ratio is at a more reasonable level would have the effect of improving the ratio of debt service to gross revenues in the transportation fund over time.

11. Under Motion #24, the Committee earlier approved standard budget adjustment (SBA) reductions of \$526,900 SEG annually and \$133,600 FED annually. The table below shows the base budget prior to Committee action, the actions taken by the Committee, and the base budget after the Committee's actions.

TABLE 1

**2021-23 Southeast Wisconsin Freeway Megaprojects Program
Committee Base Budget Changes**

	<u>SEG</u>	<u>FED</u>	<u>Total</u>
Adjusted Base Funding Level	\$53,533,200	\$54,772,600	\$108,305,800
Motion #24 (SBAs) Program Prior to Further JFC Action	<u>-1,053,800</u>	<u>-267,200</u>	<u>-1,321,000</u>
	\$52,479,400	\$54,505,400	\$106,984,800

Funding Level

12. The alternatives discussed in this paper include the Governor's recommendations for the southeast megaprojects program as well as a funding scenario that provides no new authorized bonding. As noted earlier, all of the 2021-23 southeast megaprojects program funding is expected to be allocated to the I-94 East-West project. According to DOT, despite the recent decision to update the federal EIS, the \$82.0 million in 2021-23 funding recommended by the Governor is needed to maintain the current I-94 East-West project schedule. The table below provides a comparison of the program's funding levels under each alternative discussed in this paper. The program's base budget, as modified by earlier Committee action, would provide \$25.0 million (30.5%) more than the \$82.0 million needed in the biennium to keep the I-94 East-West project on its existing timeline.

TABLE 2

**Potential Southeast Wisconsin Freeway Megaprojects Program
Funding Levels**

<u>Potential Funding Levels*</u>	<u>SEG</u>	<u>FED</u>	<u>Gen. Ob. Bonds (SEG)</u>	<u>Total</u>
Base Budget (Alt. A5)**	\$52,479,400	\$54,505,400	\$0	\$106,984,800
Governor (Alt. A1)	12,000,000	30,000,000	40,000,000	82,000,000
No Bonding - Delay (Alt. A2)	12,000,000	30,000,000	0	42,000,000
No Bonding - Maintain (Alt. A3)	52,000,000	30,000,000	0	82,000,000
No Funding (Alt. A4)	0	0	0	0

*Amounts shown comprise all southeast Wisconsin freeway megaprojects recommendation items, including adjustments to the base, and standard budget adjustments.

**As modified by earlier actions of the Committee in May, 2021.

13. The Governor recommended a 2021-23 southeast megaprojects program funding level of \$82.0 million, including \$40.0 million of transportation fund-supported, general obligation bonds. Using bonds for the I-94 East-West corridor reconstruction project would require a modification to the statutes to specify that the project would be an allowable use of bond proceeds from the existing bonding authorization. The recommended funding would include funding for the planning, design, real estate acquisitions, and utility and substation relocations associated with the project. Estimated debt service associated with the partial issuance of these bonds in the biennium would be \$1,052,500 in 2022-23. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at \$3,209,800 annually. The Governor's recommendation for the southeast megaprojects program in the 2021-23 biennium is shown in the table below. This funding level would represent approximately 3.1% of the total funding recommended for the three major components of the state highway program, which is significantly lower than previous biennia (Attachment 1) in part because the only project needing additional funding in the biennium is the I-94 East-West project, which is in the in the initial planning and design phase. [Alternative A1]

TABLE 3**Southeast Wisconsin Freeway Megaprojects Program Funding --
Governor's Recommendation**

<u>Fund</u>	<u>Alternative A1*</u>		<u>Biennial Total</u>
	<u>2021-22</u>	<u>2022-23</u>	
SEG	\$4,000,000	\$8,000,000	\$12,000,000
FED	16,000,000	14,000,000	30,000,000
Gen. Ob. Bonds (SEG)	<u>20,000,000</u>	<u>20,000,000</u>	<u>40,000,000</u>
Total	\$40,000,000	\$42,000,000	\$82,000,000

*Amounts shown comprise all southeast Wisconsin freeway megaprojects recommendation items, including adjustments to the base and standard budget adjustments.

14. While the Governor's recommended bonding level for the southeast megaprojects program would be modest, the overall bonding level recommended by the Governor for transportation (\$555.8 million) could impact the transportation fund in future years. The Department indicates that the \$40 million in bonding is needed to maintain the current I-94 East-West project timeline. However, the additional work on the project's EIS has moved back the expected federal record of decision date for the project compared to earlier schedule estimates. Hence, the start of construction could likely be later than earlier project timelines suggested. Nonetheless, providing just the \$42.0 million shown in the table below, and no bonding authority, could lead to delays in planning, design and other scheduled work, although the actual impact is not known. [Alternative A2]

TABLE 4**Southeast Wisconsin Freeway Megaprojects Program Funding --
2021-23 No Bonding/Possible Schedule Delay Alternative**

<u>Fund</u>	<u>Alternative A2*</u>		<u>Biennial Total</u>
	<u>2021-22</u>	<u>2022-23</u>	
SEG	\$4,000,000	\$8,000,000	\$12,000,000
FED	<u>16,000,000</u>	<u>14,000,000</u>	<u>30,000,000</u>
Total	\$20,000,000	\$22,000,000	\$42,000,000

*Amounts shown comprise all southeast Wisconsin freeway megaprojects recommendation items, including adjustments to the base and standard budget adjustments.

15. Alternatively, those who may be adverse to authorizing new bonds for the program in the biennium may at the same time want to maintain with more certainty the I-94 East-West schedule, to allow the project to be ready to begin construction in a timely manner once it receives federal approval. Under this alternative, additional SEG funding would be needed to provide the \$82.0 million that DOT indicated was needed to maintain the I-94 East-West project schedule. As a result,

the Committee would have to adjust the SEG funding provided to the other state and local highway programs, or the SEG funding for other transportation programs such as State Patrol, in the biennium in order to maintain a positive balance in the transportation fund. The funding for the southeast Wisconsin freeway megaprojects program under this alternative would be allocated as indicated in the table below. [Alternative A3]

TABLE 5

**Southeast Wisconsin Freeway Megaprojects Program Funding --
2021-23 No Bonding/Maintain Schedule Alternative**

<u>Fund</u>	<u>Alternative A3*</u>		<u>Biennial Total</u>
	<u>2021-22</u>	<u>2022-23</u>	
SEG	\$24,000,000	\$28,000,000	\$52,000,000
FED	<u>16,000,000</u>	<u>14,000,000</u>	<u>30,000,000</u>
Total	\$40,000,000	\$42,000,000	\$82,000,000

*Amounts shown comprise all southeast Wisconsin freeway megaprojects recommendation items, including adjustments to the base and standard budget adjustments.

16. Uncertainty continues to exist associated with the I-94 East-West project. Some local opposition exists among some officials and groups who would prefer a reconstruction of the existing facility rather than an expanded system for this stretch of interstate. Further, the completion of an updated EIS has adjusted earlier timelines for the expected federal record of decision. Nonetheless, it is inevitable that some level of reconstruction of this I-94 East-West corridor facility is needed, and will likely be approved by the federal government. Providing no funding for the project at this time would limit DOT's ability to advance planning, design, and other scheduled work ahead of the federal record of decision that is currently expected in late 2022 or early 2023. This could likely delay the Department's ability to begin construction once the federal decision is received. However, this alternative would free up both SEG and FED funding to be used on other transportation program priorities.

17. Also, while no funding is required for enumeration of the project, doing so without some level of associated funding would mean that DOT would not be able to fund needed project activities in the biennium and would adversely affect the project schedule. Moreover, in the 2015-17 and 2017-19 biennia, the Department requested enumeration of, and funding for, the I-94 East-West project. As noted earlier, in fall, 2017, the Department requested the federal government rescind the project's federal approval given the lack of state investment. Subsequently, the project was restarted, and under 2019 Act 9, additional funding (\$20.0 million in 2019-21) was provided to restart the federal approval process and build on the Department's planning work completed to date. If the project is enumerated and no funding is provided in 2021-23 biennium, losing the work associated with the already sunk costs could be a risk. Further, it could lead to additional costs associated with the state having to again update its planning and design work at some point in the future. Nonetheless, this alternative would eliminate the base funding for the program of \$26,239,700 SEG and \$27,252,600 FED. [Alternative A4]

18. Alternatively, if no action would be taken by the Committee, base level funding of \$107.0 million (as shown in the table below) would be available for the southeast megaprojects program in the 2021-23 biennium. This funding would provide \$25.0 million more than what DOT indicates is needed to maintain the projected I-94 East-West project schedule and is recommended by the Governor. Although this alternative would also not include any new bonding authority, it would provide \$40.5 million more in SEG funding than is recommended by the Governor. This would again require the Committee to have to adjust the level of SEG funding provided to other state and local highway programs, or the SEG funding for State Patrol, in the biennium in order to maintain a positive balance in the transportation fund. [Alternative A5]

TABLE 6

**Southeast Wisconsin Freeway Megaprojects Program Funding --
2021-23 Base Budget Alternative**

<u>Fund</u>	<u>Alternative A5*</u>		
	<u>2021-22</u>	<u>2022-23</u>	<u>Biennium</u>
SEG	\$26,239,700	\$26,239,700	\$52,479,400
FED	<u>27,252,700</u>	<u>27,252,700</u>	<u>54,505,400</u>
Total	\$53,492,400	\$53,492,400	\$106,984,800

*As modified by earlier actions of the Committee in May, 2021.

Other Factors Related to Program Funding

19. In 2019-21 budget discussions, the Department noted that the state highway rehabilitation program's funding level has a significant impact on state highway conditions. However, DOT has also stressed that southeast Wisconsin freeway megaprojects and major highway development projects must also be funded at a sufficient level in order to avoid spillover effects that would negatively affect these state highway conditions over time. Although both of these programs typically deal with capacity expansion issues, funding these reconstruction projects under the majors and southeast megaprojects programs eliminates some of the highway rehabilitation program needs associated with those redeveloped highways. Absent sufficient funding for the majors and megaprojects programs, additional pressure would be placed on the SHR program funding, primarily due to significant age-related infrastructure issues in the southeast region of the state, as well as other parts of the state.

20. The availability of transportation fund revenue to fund any of the alternatives described in this paper would depend on other actions taken by the Committee relative to SEG revenue to the fund, overall state highway improvement and maintain programs, Division of Motor Vehicles and State Patrol, local transportation program SEG funding, and the level of transportation fund-supported debt authorized for the 2021-23 biennium.

Enumeration of Projects

21. Given the significant project study that has occurred since 2012, as well as the need for some level reconstruction work on the I-94 East-West corridor, the project is being recommended for enumeration. Proponents of enumerating the I-94 East-West corridor project have noted that the state has invested significant resources (approximately \$3 billion) in order to expand and modernize the adjacent Zoo and Marquette interchanges on I-94, while the stretch in between these two investments remains unsafe and inadequate. The I-94 East-West corridor reconstruction project would be defined as "all freeways, including related interchange ramps, roadways, and shoulders, encompassing I-94 in Milwaukee County from 70th Street to 16th Street, and all adjacent frontage roads and collector road systems." The 3.5-mile project under the 2016 federal approval's "preferred alternative" would reconstruct I-94 in Milwaukee County between the project boundaries, expand the existing roadway from six to eight lanes (four in each direction), reconstruct or redevelop affected interchanges, and complete related local road construction as a part of the project.

22. Proponents for the project cite concerns regarding the current roadway involving safety, congestion, and other operational issues. For example, according to the project's 2016 approval document from the federal government, most crash rates in the corridor are at least twice as high as the statewide average for large urban freeways, and some sections are four times higher. Regarding congestion, level of service is a measure of congestion based on number of vehicles per hour per lane, with level of service 'A' exhibiting free-flow traffic and level of service 'F' exhibiting extreme congestion approaching gridlock. Existing levels of service range between 'C' (good conditions) and 'F' (extremely congested conditions) during the heaviest traffic periods, with predicted levels of service ranging from 'D' (moderately congested) to 'F' (extremely congested) by 2040. Lastly, there are identified design deficiencies according to national guidelines, including deficiencies related to left-hand entrances and exits (11 locations), horizontal curves (identified as substandard along most of the corridor), decision and stopping sight distances (8 locations do not meet minimum standards), vertical clearance (16 bridges do not meet minimum vertical clearance standards), ramp spacing (12 locations do not meet minimum ramp spacing standards), merging distances (18 locations are identified as substandard), and acceleration and deceleration lanes (10 ramps have inadequate lengths).

23. The project's September, 2016, federal record of decision indicated that the total, inflation-adjusted cost was estimated at \$1.1 billion. As part of the 2019-21 biennial budget, \$20.0 million was provided to the Department to reinitiate work on the project. In July 2020, the Governor announced that DOT would seek federal approval to resume the I-94 East-West corridor project. In April, 2021, it was announced that a supplemental environmental impact statement would be conducted due to changes since the project was approved in 2016. This could allow for a federal record of decision in late 2022 or early 2023, and the beginning of construction in 2023 or 2024.

24. Alternatives to the 2016 record of decision preferred alternative of modernization and expansion of the I-94 East-West included: (a) a "replace in kind" alternative, which involves replacing the pavement but maintaining the current configuration; and (b) a "modernization" alternative that would replace the existing roadway and reconfigure the highway to address many of the safety issues, but does not expand the roadway from six to eight lanes. At the time of the 2016 federal record of decision, the costs associated with these alternatives were approximately \$375 million to \$400 million

for the replace in kind option, and \$975 million to \$1,000 million for the modernization option. Because of its expected costs, the modernization alternative would likely still remain a southeast Wisconsin freeway megaproject and require enumeration, whereas the replace in kind alternative may likely be a candidate for the major highway development program.

25. While these other alternatives would address some of the condition and configuration concerns with the existing roadway, the project's 2016 preferred expansion alternative ameliorated more of the safety and congestion issues. For example, at that time, the preferred alternative was estimated to have 23 to 29 percent fewer crashes than the replace-in-kind option. In addition, the preferred alternative was estimated to allow for a level of service 'D' (moderately congested) or better during peak hours compared to the present 'F' (extremely congested), whereas even with the modernization alternative that does not include expansion, the levels of service forecasted in 2040 would be 'E' (severely congested) to 'F' (extremely congested) at several locations. The modernization without expansion alternative was eliminated as the preferred alternative as part of the 2016 federal review because it did not adequately address congestion.

26. The preferred alternative to be recommended as part of this second upcoming federal record of decision process remains unknown. The preferred alternative could remain similar to the 2016 preferred alternative that modernized and expanded the roadway, or it could be a modernization without expansion alternative, or even replace-in-kind alternative. If enumerated and funded, DOT indicates that construction on I-94 East-West could begin in the 2023-25 biennium. [Alternative B1]

27. Conversely, in the past, opponents have cited concern regarding the I-94 East-West project's environmental impacts and substantial costs as reasons for maintaining the existing facility. There also exists some opposition to the project among some local government officials. Given the current budget environment, the uncertainty regarding the pending federal record of decision, 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. Moreover, because construction on a southeast Wisconsin freeway megaproject cannot begin until the project is enumerated, not enumerating the project in this biennium would likely mean the project's construction would be delayed until enumeration occurs, with the most likely opportunity to do so being in the 2023-25 biennial budget. [Alternative B2]

Other Project Considerations

28. In recent years, city governments have been removing stretches of interstate or urban road spurs that divide city neighborhoods. Recently, the proposed federal infrastructure bill, as well as separate federal legislation, would provide funding aimed at removing or rehabilitating such facilities for the betterment of the surrounding neighborhoods. In this vein, some have voiced similar concerns related to the lasting impact that State Highway (STH) 175 north of the I-94 stadium interchange in Milwaukee has had on the adjacent neighborhoods. Concerns regarding this corridor pertain to STH 175 being a freeway-like structure and thoroughfare that divides rather than integrates existing neighborhoods. While this project alone would not meet the cost threshold to be considered a southeast Wisconsin freeway megaproject, some have expressed a desire for it to be considered as part of, or alongside, the I-94 East-West project. DOT indicates that options to address this component were not investigated as part of the existing I-94 East-West study, and that a separate study would be

needed to investigate alternatives to remove freeway interchanges and better integrate highway access into the existing city street system. The Department estimated that a separate study to investigate alternatives and costs along with their environmental impacts could range from \$10 million to \$15 million.

29. If addressing these concerns is seen as a benefit to urban and neighborhood revitalization, and should be considered a priority, DOT could be directed to conduct a study of STH 175 north of I-94 near the stadium interchange, and to use funding provided under the SHR program for these purposes. [Alternative C1]

30. Considering the available SEG funding, some may have concerns advancing a project ahead of the standard state highway rehabilitation prioritization process. Doing so would impact the funding available for other priority SHR projects in the biennium. [Alternative C2]

ALTERNATIVES

A. Funding Level

1. Make the following changes to the southeast Wisconsin freeway megaprojects program's funding in order to provide a 2021-23 funding level of \$82,000,000: (a) reductions of \$22,239,700 SEG and \$11,252,700 FED in 2021-22; (b) reductions of \$18,239,700 SEG and \$13,252,700 FED in 2022-23; and (c) authorization of \$40,000,000 in transportation fund-supported, general obligation bonds for use on the I-94 East-West corridor reconstruction project. Modify statutes to specify that the I-94 East-West corridor reconstruction project would be an allowable use of bond proceeds from the existing bonding authorization. Estimate debt service associated with the partial issuance of these bonds in the biennium to be \$1,052,500 SEG in 2022-23. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at \$3,209,800 annually. The change in funding reflects the change to base level funding for Southeast Wisconsin freeway megaprojects, as modified by the standard budget adjustment reductions made under earlier actions of the Committee.

ALT A1	Change to Base
SEG	- \$39,426,900
FED	- 24,505,400
BR-SEG	<u>40,000,000</u>
Total	- \$23,932,300

2. Make the following changes to the southeast Wisconsin freeway megaprojects program's funding in order to provide a 2021-23 funding level of \$42,000,000: (a) reductions of \$22,239,700 SEG and \$11,252,700 FED in 2021-22; and (b) reductions of \$18,239,700 SEG and \$13,252,700 FED in 2022-23, for use on the I-94 East-West corridor reconstruction project. This level of funding could likely inhibit DOT's ability to conduct planning and design work on the I-94 East-West project, potentially leading to construction delays should the project be approved by the federal government. The change in funding reflects the change to base level funding for Southeast Wisconsin

freeway megaprojects, as modified by the standard budget adjustment reductions made under earlier actions of the Committee.

ALT A2	Change to Base
SEG	- \$40,479,400
FED	<u>- 24,505,400</u>
Total	- \$64,984,800

3. Make reductions of \$2,239,700 SEG and \$11,252,700 FED in 2021-22 and an increase of \$1,760,300 SEG and a decrease of \$13,252,700 FED in 2022-23 to the southeast Wisconsin freeway megaprojects program's funding in order to provide a 2021-23 funding level of \$82,000,000 for use on the I-94 East-West corridor reconstruction project. This would maintain the current I-94 East-West project schedule but would not authorize new bonds for this purpose. The change in funding reflects the change to base level funding for Southeast Wisconsin freeway megaprojects, as modified by the standard budget adjustment reductions made under earlier actions of the Committee.

ALT A3	Change to Base
SEG	- \$479,400
FED	<u>- 24,505,400</u>
Total	- \$24,984,800

4. Make the following changes to the southeast Wisconsin freeway megaprojects program's funding in order to eliminate base funding in the 2021-23 biennium: (a) reductions of \$26,239,700 SEG annually; and (b) reductions of \$27,252,700 FED annually. This would inhibit DOT's ability to conduct planning and design work on the I-94 East-West project (which is recommended for enumeration by the Department and Governor), likely leading to construction delays should the project be approved by the federal government. The change in funding reflects the change to base level funding for Southeast Wisconsin freeway megaprojects, as modified by the standard budget adjustment reductions made under earlier actions of the Committee.

ALT A4	Change to Base
SEG	- \$52,479,400
FED	<u>- 54,505,400</u>
Total	- \$106,984,800

5. Take no action. Base funding of \$106,984,800 would remain available in 2021-23. This level of funding would provide \$25.0 million more funding than the Department indicates is necessary to maintain the I-94 East-West project schedule. The change in funding reflects the change to base level funding for Southeast Wisconsin freeway megaprojects, as modified by the standard budget adjustment reductions made under earlier actions of the Committee.

B. Project Enumeration

1. Enumerate the I-94 East-West Corridor project as a southeast Wisconsin freeway megaproject. Define the project as "all freeways, including related interchange ramps, roadways, and shoulders, encompassing I-94 in Milwaukee County from 70th Street to 16th Street, and all adjacent frontage roads and collector road systems." Statutory enumeration is required before southeast Wisconsin freeway megaprojects may begin construction. If enumerated and funded at \$82.0 million in the 2021-23 biennium, DOT indicates that construction could begin in the 2023-25 biennium.
2. Take no action. Construction could not begin on the I-94 East-West project until it is enumerated.

C. Other Project Considerations

1. Require the Department to allocate SEG funding for the study of improvements to WIS-175 just north of the I-94 stadium interchange in the 2021-23 biennium, and list this allocation as an allowable use of funds from the state highway rehabilitation SEG appropriation.
2. Take no action.

Prepared by: Nick Lardinois
Attachment

ATTACHMENT

**Recent Biennial Funding Levels for Three Main 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>
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	1,626.2	563.7	535.6	2,725.7
2019-21	1,937.8	564.2	226.4	2,728.4
2021-23*	\$2,004.5	\$565.6	\$82.0	\$2,652.1

<u>Biennium</u>	<u>State Highway Rehabilitation</u>	<u>Major Highway Development</u>	<u>Southeast Wisconsin Freeways</u>	<u>Total</u>
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	59.7	20.7	19.6	100.0
2019-21	71.0	20.7	8.3	100.0
2021-23*	75.6%	21.3	3.1%	100%

*Governor's budget recommendation after correcting for technical errata, excluding the design build bonding recommendation, which could be used for any of the components of the state highway improvement program.



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One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

June, 2021

Joint Committee on Finance

Paper #608

State Highway Design-Build Projects (Transportation - State Highway Program)

[LFB 2021-23 Budget Summary: Page 587, #7]

CURRENT LAW

The 2019-21 biennial budget act, 2019 Act 9, established an alternative highway project delivery method known as "design-build". Under this method, the project design, engineering, construction, and related service are provided under one contract and are provided by a single design-builder. This is in contrast to the typical "design-bid-build" contracting method where a design contract is solicited, completed, and approved, then the construction component is put out for bids separately. Subsequent legislation, 2019 Wisconsin Act 18, provided an additional requirement for DOT to maintain an inventory of not fewer than five projects suitable for selection to utilize the alternative highway project design methods.

DISCUSSION POINTS

1. Most Department of Transportation (DOT) highway construction projects have separate contracts for the design and construction phases. Under this method, the construction contract is chosen after the Department has put out a request for bids following the completion of the project design. The Department then follows state procurement procedures to select the lowest responsible bidder for construction. This is referred to as the design-bid-build contracting process.

2. 2019 Act 9, the 2019-21 biennial budget act, created an alternative highway project delivery method known as "design-build". However, the design build program as passed by the Legislature during actions on the 2019-21 budget included significantly more provisions that were subsequently partially vetoed by the Governor, and not included in Act 9. As a result, the program is more limited in scope, in functional requirements, and in legislative oversight, than was envisioned by the Legislature at the time. Subsequently, 2019 Assembly Bill (AB) 820 was trailer bill aimed at

making modifications to restore and clean up some of the partially vetoed design build provisions included under Act 9. Then Secretary-designee Thompson, in testimony on AB 820, acknowledged that the Department could work within the framework of the AB 820 as it develops its design build program. AB 820 passed the Assembly, but did not pass the Senate before the session ended. Similar legislation has yet to be introduced as part of the 2021 legislative session.

3. Under Act 9, the design build method allows for a single contract to be solicited for a project from design through construction, including architectural, surveying, engineering, and construction services. Typically these contracts are chosen through a request for proposal, where the selection is quality-based rather than price-based according to the Department. The Act required the Department to prepare a request for qualifications that includes the minimum required qualifications for certification as a qualified bidder and the minimum required qualifications for certification as a responsible bidder, and required the Department to prepare a request for proposals for each design-build contract. The Act permitted the Department to replace any individual that responded to a request for qualifications with a design-builder if the Department determines the new individual meets the qualifications described in the response to the request for qualifications and their qualifications are at least equal to those of the individual being replaced.

4. Design-build projects have the potential for several advantages, including possible expedited schedules, encouraging innovation, and reducing administrative burden. DOT notes that projects best suited for the design-build method include complex projects that involve multiple construction trades or have tight schedules. The Department is in the process of developing program requirements, goals, and standards, and currently maintains a list of 28 projects under consideration for design-build. The Department plans to enter into contracts for the first two design-build projects in 2021, with construction beginning in 2022.

5. The Governor recommends authorizing \$20,000,000 in transportation fund-supported, general obligation bonds for state highway improvement program projects utilizing the design-build method in the state highway rehabilitation, major highway development, and southeast Wisconsin freeway megaprojects programs. This would require creating a new bonding authorization for this purpose and modifying an existing SEG debt service appropriation to include the debt service on these bonds as an allowable expenditure.

6. The Governor intended to recommend that design build projects be permitted in the state highway rehabilitation, major highway development, and southeast Wisconsin freeway megaprojects programs. However, the bill does not modify the existing program statute that lists eligible appropriations and bonding authorizations to be used for projects in the southeast Wisconsin freeway megaprojects program to include the recommended newly-created bonding authorization. The administration submitted a technical errata in April, 2021, to correct this. If the design build bonding recommendation is approved, it would have to include this purpose under the southeast Wisconsin freeway megaprojects program statutes in order for those projects to be funded using the bonding.

7. Design-build projects are subject to specific funding requirements that can create challenges. For example, the full amount of a contract must be encumbered in the fiscal year in which the contract is signed. This commits larger tranches of funding earlier in the project schedule compared to the traditional design-bid-build method where projects are funded in multiple stages.

Funding design-build projects with bond proceeds allow these costs to be dispersed across the duration of the bond term.

8. If the Committee shares the belief that design-build method could bring improvements to the delivery of state highway projects, it could authorize \$20,000,000 in transportation fund-supported, general obligation bonds for use in the state highway rehabilitation, major highway development, and southeast Wisconsin freeway megaprojects programs and modify the necessary statutes to do so. Estimated debt service associated with the partial issuance of these bonds in the biennium would be \$1,052,500 SEG in 2022-23. Once fully issued, debt service is estimated to be \$1,604,900 SEG annually. [Alternative 1]

9. As mentioned earlier, and as demonstrated under 2019 AB 820, some have felt that the design build provisions included in 2019 Act 9, as partially vetoed, do not encompass the needed scope, functionality, or legislative oversight envisioned by the Legislature during deliberations on 2019 Act 9. However, the changes needed to the Act 9 design build provisions could not be agreed upon last session. Nonetheless, the Committee may want to wait to provide funding for design build projects until more agreement exists relative to the Department's design build authority going forward.

10. Under the base level funding currently included in the substitute amendment to Assembly Bill 68/Senate Bill 111, expenditures from the transportation fund are significantly higher than under the Governor's recommendations. The Governor's recommendations reduced SEG funding to the state highway improvement program and replaced that funding with bonding. Further, while the 2019-21 budget increased revenues to the transportation fund, the coronavirus pandemic has dampened the impact of those revenue increases to the fund, as well as to ongoing base level revenues. The Committee already took action to reduce transportation fund appropriations, including adopting standard budget adjustments and reestimates of sum sufficient debt service appropriations that reduced appropriations by \$46.5 million in 2021-22 and \$31.4 million in 2022-23. Despite these actions and slightly higher estimated revenues, prior to Committee actions on the remainder of the transportation budget the estimated 2022-23 ending balance is -\$32.3 million. Thus, the availability of SEG finding to support future debt service on bonds issued for design build highway projects could be limited.

11. Under the separate recommendations of the Governor, each of the three major components of the state highway improvement program would be authorized additional bonding. Similarly, if this design build bonding is approved (as modified by the errata), and because no specific projects or programs have been identified for use of this bonding, each of the three major components of the state highway program could access some or all of the recommended design build bonding. Therefore, if the Committee chooses to authorize bonding for design build state highway projects, in separate actions, it could reduce the bonding amounts recommended for one or all of the three major highway components in the biennium.

12. Bonding has often been used as the means of funding the gap between DOT infrastructure programs needs and available revenues. Consequently, the amount of annual transportation fund revenues needed to support annual debt service is seen as a measure of the transportation fund's solvency. Given the adverse effects on transportation fund revenue due to the coronavirus pandemic, which in turn may require more bonding to fulfill other programmatic needs,

some may have concerns regarding the continued authorization of additional bonds and thus increasing the amount of future SEG revenues needed to pay debt service. If the Committee shares this concern, it could take no action. [Alternative 2]

ALTERNATIVES

1. Authorize \$20,000,000 in transportation fund-supported, general obligation bonds to be issued for state highway improvement program projects utilizing the design-build method in the state highway rehabilitation, major highway development, and southeast Wisconsin freeway megaprojects programs, and make the necessary statutory modifications. Estimated debt service associated with the partial issuance of these bonds in the biennium would be \$1,052,500 SEG in 2022-23. Once fully issued, debt service is estimated to be \$1,604,900 SEG annually.

ALT 1	Change to Base	
	Revenue	Funding
BR-SEG	\$20,000,000	\$0
SEG	\$0	\$1,052,500

2. Take no action.

Prepared by: Nick Lardinois



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

June, 2021

Joint Committee on Finance

Paper #609

State Highway System - Salt Funding (Transportation -- State Highway Program)

[LFB 2021-23 Budget Summary: Page 587, #8]

CURRENT LAW

The state highway maintenance and traffic operations program is responsible for a variety of activities related to the upkeep of state highways, including winter maintenance such as snow plowing and ice removal. Most routine maintenance work is performed by counties under contract with the state, who are later reimbursed by the Department of Transportation (DOT) from a separate appropriation. Although winter maintenance is categorized as routine, the material cost of the deicing salt is paid from the highway system management and operations appropriation. The Department attempts to reduce materials costs through large-scale purchases of deicing salt, which it then provides to counties for use on state highways.

DISCUSSION POINTS

1. The state highway maintenance and traffic operations program is responsible for a variety of activities related to the upkeep of state highways and highway rights-of-way, including minor repair of pavements and bridges, winter maintenance (such as snow plowing and ice removal), mowing and vegetation management, and the maintenance of highway rest areas and waysides. Most of this work is performed by counties under contract with the state. Counties are reimbursed for state maintenance work based on three criteria: (a) county labor costs; (b) county machinery costs; and (c) materials supplied by the county, with the exception of deicing salt. The Department attempts to reduce materials costs through large-scale purchases of deicing salt, which it then provides to counties for use on state highways. The highway system management and operations appropriation funds non-routine traffic operations and system management activities, including bridge maintenance. Highway traffic operation functions include: (a) pavement marking activities, such as centerline or painting

crosswalk lines; (b) the installation, replacement, or maintenance of highway signs; (c) traffic control signals; and (d) highway lighting. Also included under the highway system management and operations program is the state traffic operations center support, bridge maintenance and operation, roadside facilities operations, program staff costs, and purchase of deicing salt used for winter maintenance. Although winter maintenance is categorized as routine, the material cost of the deicing salt is paid from the highway system management and operations appropriation. Because all of these activities are funded from the same appropriation, increasing costs for a certain activity requires utilizing funds that then cannot be used for a different activity. For example, increasing salt costs would erode the amount of funding available for these other purposes absent an appropriation increase.

2. The Department's records indicate that the price of salt has increased in recent years. Over the past 10 years (from \$58.55 per ton in 2010-11) the average annual increase has been 3.2%. However, over the past three years, the price of salt has increased from \$67.60 per ton in 2017-18 to \$80.09 in 2020-21, a total increase of 18.5%. Table 1 displays the cost of salt since 2011-12.

TABLE 1

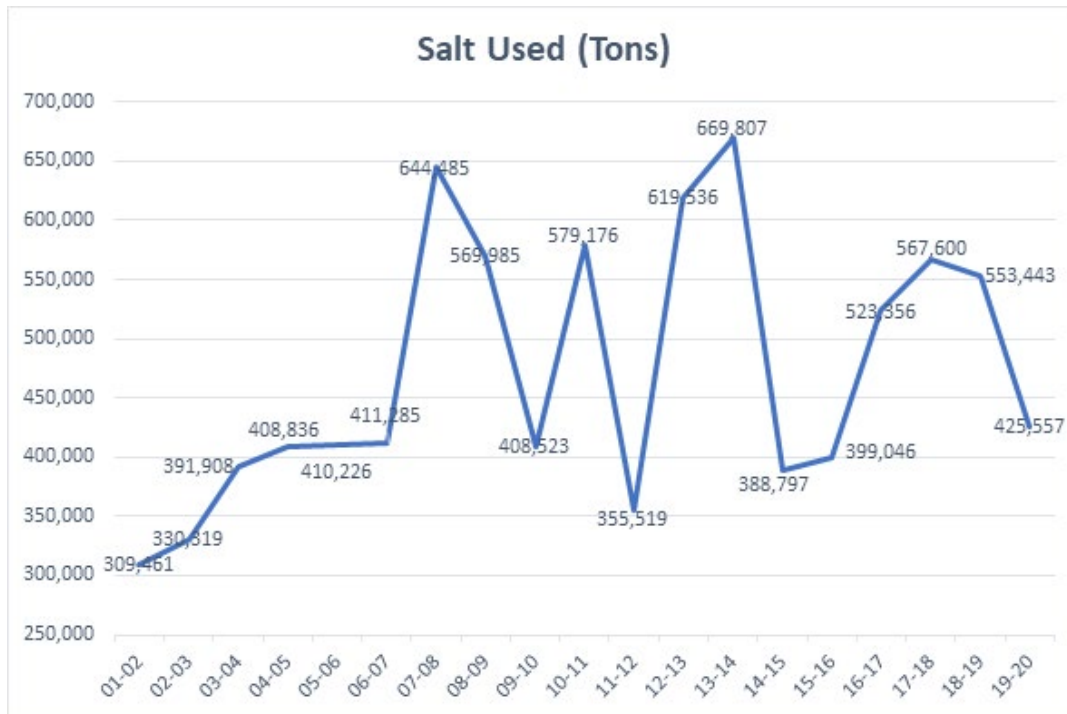
Average Statewide Price of Salt

<u>Year</u>	<u>Price per Ton</u>	<u>Price Change</u>	<u>Annual Percentage Change</u>	<u>Cumulative Percentage Change</u>
2011-12	\$59.18	\$0.63	1.1%	NA
2012-13	58.34	-0.84	-1.4	-1.4
2013-14	60.78	2.44	4.2	2.7
2014-15	69.01	8.23	13.5	16.6
2015-16	71.35	2.34	3.4	20.6
2016-17	68.74	-2.61	-3.7	16.2
2017-18	67.60	-1.14	-1.7	14.2
2018-19	73.51	5.91	8.7	24.2
2019-20	77.10	3.59	4.9	30.3
2020-21	80.09	2.99	3.9	35.3

3. Figure 1 below, provided by the Department, displays the amount of salt used from 2001-02 to 2019-20, which varies substantially from year-to-year and is difficult to predict. For example, during this time the Department has used as little as 309,461 tons in 2001-02 and as much as 669,807 tons in 2013-14. The average amount of salt used during this time is 471,956 tons. Each year, the Department determines the greater amount between 150% of the 5-year average salt use or the most salt used on record for each specific county, and aggregates these county-level amounts to determine the total statewide amount of salt to purchase. The Department then coordinates with its regional offices to allocate salt to specific counties. Using this methodology, the Department's current goal is to contract for 787,000 tons of salt statewide in order to have sufficient salt available even under extreme scenarios. In doing so, each year the Department is planning to purchase the difference between its inventory (currently approximately 215,000 tons) and its 787,000 ton goal. Because the cost of salt generally increases year over year, the Department often purchases salt at the end of winter

for the next season, further making an estimate of how much salt is needed difficult.

FIGURE 1



*Provided by DOT

4. Due to frequent price changes and unpredictability regarding how much salt will be needed, the actual funding needed for salt is difficult to estimate and can vary substantially from year to year. From 2011-12 through 2019-20, the annual percent change in the actual cost for salt (price x quantity used) has varied significantly from year to year. Table 2 displays the cost of salt used by the Department each year from 2011-12 through 2019-20.

TABLE 2**Cost of Salt Used
(Price x Quantity Used)**

<u>Year</u>	<u>Price per Ton</u>	<u>Tons Used</u>	<u>Annual Cost</u>	<u>Annual Percentage Change</u>
2011-12	\$59.18	355,519	\$21,039,600	NA
2012-13	58.34	619,536	36,143,700	71.8%
2013-14	60.78	669,807	40,710,900	12.6
2014-15	69.01	388,797	26,830,900	-34.1
2015-16	71.35	399,046	28,471,900	6.1
2016-17	68.74	523,356	35,975,500	26.4
2017-18	67.60	567,600	38,369,800	6.7
2018-19	73.51	553,443	40,683,600	6.0
2019-20	77.10	425,557	32,810,400	-19.4

5. The Department currently has an annual salt budget of \$35 million, which was increased in 2016-17 from \$25 million. However, due to the price of salt and actual salt used, this budget amount was insufficient to cover the cost of salt used for five of the last eight years, including three of the last four. The Department estimates it will need a total of \$47,510,900 in 2021-22 and \$48,118,100 in 2022-23 for salt purchases. As a result, the Governor recommends increasing funding by \$12,510,900 in 2021-22 and \$13,118,100 in 2022-23 to fund the increased costs of salt needed to maintain state highways. These amounts were derived by the Department by subtracting the current salt inventory of 215,000 tons from its annual goal of having 787,000 tons available to determine how much salt is needed to attain its goal, and assuming a 5% increase in salt prices each year along with a nearly 3.5% annual reduction in salt use in 2021-22 and 2022-23 (DOT assumes a reduction in salt use resulting from the Department's investment in brining equipment, which reduces the amount of salt needed). [Alternative 1]

6. Under the base level funding currently included in the substitute amendment to Assembly Bill 68/Senate Bill 111, expenditures from the transportation fund are significantly higher than under the Governor's recommendations. The Governor's recommendations reduced SEG funding to the state highway improvement program and replaced that funding with bonding. Further, while the 2019-21 budget increased revenues to the transportation fund, the coronavirus pandemic has dampened the impact of those revenue increases to the fund, as well as to ongoing base level revenues. The Committee already took action to reduce transportation fund appropriations, including adopting standard budget adjustments and reestimates of sum sufficient debt service appropriations that reduced appropriations by \$46.5 million in 2021-22 and \$31.4 million in 2022-23. Despite these actions and slightly higher estimated revenues, prior to Committee actions on the remainder of the transportation budget the estimated 2022-23 ending balance is -\$32.3 million. Thus, the availability of SEG funding to provide an ongoing increase in the Department's salt budget may be limited.

7. Using other reasonable methodologies to estimate how much funding will be needed for salt purchases in the biennium could lower the increase needed to be provided in the budget. For example, instead of aggregating each county's greater amount between the most salt used on record

and 150% of each county's most recent five-year average, DOT could instead use these formulas on a statewide basis. However, one difficulty with using a statewide methodology would be that it would require additional logistical planning for the Department to allocate funding to individual counties from the statewide inventory. Using the greatest amount of salt used statewide, 669,807 tons in 2013-14, and assuming the average 20-year annual salt price increase of 5.3% each year, the Department would need a total of \$38,362,900 in 2021-22 and \$40,403,400 in 2022-23. This would require additional funding for the Department's highway maintenance and traffic operations SEG appropriation of \$3,362,900 in 2021-22 and \$5,403,400 in 2022-23. [Alternative 2]

8. Alternatively, using 150% of the most recent statewide five-year average salt use, the annual salt goal would instead be an estimated 740,700 tons of salt each year. Using this methodology, the Department would need a total of \$44,342,800 in 2021-22 and \$46,701,300 in 2022-23. This would require additional funding for the Department's highway maintenance and traffic operations SEG appropriation of \$9,342,800 in 2021-22 and \$11,701,300 in 2022-23 [Alternative 3].

9. If the Committee wanted to limit the funding increase provided to the Department for salt purchases, but wanted to more likely ensure that the Department would have an adequate amount of salt for even extreme winters, it could provide enough funding to fund the maximum amount of salt used statewide, plus an additional 5%. Using this methodology, the Department's goal would be an estimated 703,300 tons of salt available, which would require funding of \$41,187,800 in 2021-22 and \$43,378,500 in 2022-23. This would require additional funding to the Department's highway maintenance and traffic operations SEG appropriation of \$6,187,800 in 2021-22 and \$8,378,500 in 2022-23. [Alternative 4]

10. If the Committee has concerns regarding providing DOT additional SEG funding given the challenges facing the transportation fund following the coronavirus pandemic, it could choose to take no action [Alternative 5]. However, if the costs needed for salt continues to increase, the Department will have less funding available for other highway maintenance activities in future years such as pavement marking, roadside facility repairs, and sign repairs. Similarly, when the Department increased its internal annual salt budget from \$25 million to \$35 million beginning in the 2017-18 fiscal year, it was not provided an appropriation funding increase at that time, thus was forced to reduce funding for other activities in its maintenance program.

ALTERNATIVES

1. Provide \$12,510,900 in 2021-22 and \$13,118,100 in 2022-23 to fund the increased costs of salt needed to maintain state highways.

ALT 1	Change to Base
SEG	\$25,629,000

2. Provide \$3,362,900 in 2021-22 and \$5,403,400 in 2022-23 to fund the increased costs of salt needed to maintain state highways.

ALT 2	Change to Base
SEG	\$8,766,300

3. Provide \$9,342,800 in 2021-22 and \$11,701,300 in 2022-23 to fund the increased costs of salt needed to maintain state highways.

ALT 3	Change to Base
SEG	\$21,044,100

4. Provide \$6,187,800 in 2021-22 and \$8,378,500 in 2022-23 to fund the increased costs of salt needed to maintain state highways.

ALT 4	Change to Base
SEG	\$14,566,300

5. Take no action (DOT would have to use existing funding to cover any increased costs for salt purchases).

Prepared by: Nick Lardinois



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: <http://legis.wisconsin.gov/lfb>

June, 2021

Joint Committee on Finance

Paper #610

Hoan Bridge Fencing (Transportation - State Highway Program)

[LFB 2021-23 Budget Summary: Page 587, #9]

CURRENT LAW

The Daniel Hoan Memorial Bridge (Hoan Bridge) is a nearly two-mile bridge that connects I-794 in downtown Milwaukee with the lake freeway.

DISCUSSION POINTS

1. Opened in 1977, the Hoan Bridge is a 1.9-mile tied arch bridge that carries I-794 over the Milwaukee River, connecting I-794 (an auxiliary route of I-94) in downtown Milwaukee to the Lake Freeway on the south side of the river. Much of the area underneath the bridge is water or is unoccupied. However, located underneath the bridge are also portions of the Summerfest grounds and some publicly- or privately-owned property, most notably Milwaukee Metropolitan Sewerage District buildings.

2. The Department of Transportation (DOT) notes that installing safety fencing to the Hoan Bridge is necessary to address safety concerns. According to the Department, falling debris (such as snow, ice, tires and auto parts, and trash) from the bridge has created worker and pedestrian safety concerns as well as property damage issues. The Department notes that the Milwaukee Metropolitan Sewerage District reported at least 30 safety incidents in 2018 and 2019. In addition, the fencing could ameliorate other safety concerns, such as suicide attempts.

3. The Department indicates that it has reviewed data and conducted investigations regarding various solutions to address these safety concerns, including the structural ability of the bridge to support additional safety fencing. Based on their review, the Department recommends installing safety fencing on both sides of the bridge totaling approximately 8,600 feet at an estimated total cost of \$1,022,300. Despite the noted safety concerns, the Department did not include funding

for additional safety fencing on the Hoan Bridge in their 2021-23 biennium agency budget request. However, providing this funding to the Department's highway systems management and operations appropriation in 2021-22 was included as part of the Governor's in 2021-23 biennial budget recommendations. Almost half of the proposed fencing would be on portions of the bridge that are above the Summerfest grounds, and about one-third would be on fencing above the Milwaukee Metropolitan Sewerage District. The remaining fencing would primarily be above the Milwaukee River. Given the documented safety incidents associated with the Hoan Bridge, the additional safety fencing is necessary and worthwhile to address the existing safety concerns. Providing \$1,022,300 in 2021-22 would address these concerns. [Alternative 1]

4. In the 2013-15 budget, DOT received \$226.0 million (including \$200.0 million in SEG-supported bonding) for the rehabilitation of the Hoan Bridge and the adjoining I-794 Lake Interchange. Subsequently, under 2015 Act 55, an additional \$16.8 million was provided for painting the Hoan Bridge, and to fund change orders on the existing construction contract and remaining project costs. These outstanding safety concerns were not addressed as part of the recent rehabilitation project.

5. Moreover, under the base level funding currently included in the substitute amendment to Assembly Bill 68/Senate Bill 111, expenditures from the transportation fund are significantly higher than under the Governor's recommendations. The Governor's recommendations reduced SEG funding to the state highway improvement program and replaced that funding with bonding. Further, while the 2019-21 budget increased revenues to the transportation fund, the coronavirus pandemic has dampened the impact of those revenue increases to the fund, as well as to ongoing base level revenues. The Committee already took action to reduce transportation fund appropriations, including adopting standard budget adjustments and reestimates of sum sufficient debt service appropriations that reduced appropriations by \$46.5 million in 2021-22 and \$31.4 million in 2022-23. Despite these actions and slightly higher estimated revenues, prior to Committee actions on the remainder of the transportation budget the estimated 2022-23 ending balance is -\$32.3 million. Thus, the availability of SEG funding of \$1,022,300 to address safety concerns with the Hoan Bridge may be limited. [Alternative 2]

ALTERNATIVES

1. Provide \$1,022,300 in 2021-22 to install fencing improvements on the Hoan Bridge in Milwaukee County to provide additional safety on the bridge.

ALT 1	Change to Base
SEG	\$1,022,300

2. Take no action.

Prepared by: Nick Lardinois

Transportation -- State Highway Program

LFB Summary Items for Which No Issue Papers Have Been Prepared

<u>Item #</u>	<u>Title</u>
1	State Highway Program Summary
12	Specific Information Signs

