Transportation

State Highway Program

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8	Tribal Nation Welcome Signs
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10	Repeal 2017 Act 368 Federal Funding Limitations on State Highway Projects

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June 6, 2023 Joint Committee on Finance Paper #785

State Highway Rehabilitation Program
(Transportation -- State Highway Program)

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CURRENT LAW

The Department of Transportation (DOT) 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 for the major highway development, southeast Wisconsin freeway megaprojects, high-cost bridge, and major interstate bridge programs. In 2021-23, a total of $2,207.2 million ($1,118.0 million in state funds and $1,089.2 million in federal funds) was provided for the state highway rehabilitation program.

DISCUSSION POINTS

Background

1. DOT's state highway improvement program is responsible for the construction, reconstruction, and rehabilitation of the state's 11,750-mile state trunk highway system, consisting of interstate highways, U.S. highways, and state highways. The program is made up of three main components: (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 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. In addition to these programs, DOT also operates the major interstate bridge program, which constructs or reconstructs state highway bridges crossing a river that forms that boundary of the state, for which the state's share of costs is estimated to exceed $100 million. Assembly Bill 43/Senate Bill 70 (AB 43/SB 70) would authorize $47.2 million in

transportation fund-supported bonds for the major interstate bridge program in 2023-25 to initiate a project to reconstruct the John A. Blatnik Bridge, which spans between the City of Superior with Duluth, Minnesota.

2. While the other state highway improvement program components are project-specific, SHR provides funding for projects statewide each year. DOT identifies individual SHR projects by utilizing data-driven asset management practices, as outlined in the Department's transportation asset management plan. Asset management is defined as a strategic and systematic process of maintaining and improving physical transportation infrastructure to achieve and sustain a desired state of good repair for the highway system at minimum practicable cost. As a result, individual SHR projects are selected based on their projected impact and cost-effectiveness, among other considerations.

3. The Department also maintains a comprehensive, six-year program (or schedule) for state highway rehabilitation projects, as well as a four-year prioritized listing of state highway projects via its statewide transportation improvement program, which is required under federal law. Attachment 2 shows the proportionate, regional distribution of SHR funding in the Department's current six-year program. As shown in the attachment, SHR program funds are expected to be used to complete highway improvement projects in each of the Department's five designated regions (southwest, southeast, northeast, north central, and northwest) over the next six years.

4. The statutes also require the Department to maintain an inventory of completed highway project designs with estimated construction costs equal to or greater than 30% of the annual funding provided for the SHR program. Thus, the Department possesses an inventory of projects that can be advanced with any funding that is provided to the program. However, these project inventories are dynamic, and can change due to factors such as projects' federal aid eligibility, cost trends, and other factors.

5. As shown in Table 1, SHR program funding increased from \$1,626.2 million in 2017-19, to \$1,937.8 million in 2019-21, and to \$2,207 million in 2021-23, or an increase of 35.7% over the past two biennia. However, \$139.2 million in additional program funding in the 2021-23 biennium was appropriated due the federal Infrastructure Investment and Jobs Act (IIJA), which was enacted in November, 2021, after the 2021-23 state budget was adopted. IIJA is expected to provide state with an increased level of federal transportation funding in the five years following its enactment (2021-22 through 2025-26). As a result, the SHR program was provided with additional funding of \$123.6 million in 2021-22 and \$15.6 million in 2022-23 under federal funding plans that were submitted by DOT and approved by the Joint Committee on Finance under the first two years of IIJA.

TABLE 1

State Highway Rehabilitation Program Funding Since 2011-13
($ in Millions)

Biennium	SHR Funding	% Change
2011-13	$1,607.6	
2013-15	1,640.4	2.0%
2015-17	1,698.0	3.5
2017-19	1,626.2	-4.2
2019-21	1,937.8	19.2
2021-23	2,207.2*	13.9

*SHR program funding in the 2021-23 biennium was increased by $123.6 million in 2021-22 and $15.6 million in 2022-23 under DOT federal funding plans in each year of the biennium, as approved by the Joint Committee on Finance.

6. The SHR program has the highest funding level of any DOT program, and is the Department's primary program for the reconstruction, reconditioning, and resurfacing of state highway system roads and bridges. Thus, data on state highway system pavement conditions can provide an indication of the SHR program's performance. Table 2 displays data on state highway pavement conditions over the past six years for both backbone and non-backbone state highways. Backbone highways include roadways comprising 1,588 miles of the 11,750 mile state highway system, including multilane interstate, US, and 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 the system is classified as "non-backbone" and is generally comprised of lower order or lower traffic volume state highways. The Department's goal is to have 90% of backbone highway pavement, and 80% of non-backbone highway pavement rated fair or above.

TABLE 2

Pavement Condition of Backbone and Non-Backbone State Highways, 2017-2022

Backbone State Highways

Year	Very Good/ Excellent	Good	Fair	Poor
2017	62.0%	32.8%	4.2%	1.0%
2018	63.8	31.9	3.2	1.1
2019	62.7	31.5	4.5	1.3
2020	60.7	33.1	4.9	1.3
2021	60.3	31.1	7.1	1.5
2022	60.9	30.6	7.3	1.2

Non-Backbone State Highways

Year	Very Good/ Excellent	Good	Fair	Poor
2017	35.1%	26.2%	18.1%	20.6%
2018	37.7	25.5	18.3	18.5
2019	39.7	23.4	17.6	19.3
2020	39.7	23.3	15.7	21.3
2021	38.5	24.1	17.5	19.9
2022	41.3	23.3	16.2	19.2

7. As shown in the table, the Department is currently meeting its pavement condition goals for the state highway system. However, mixed trends have also been observed during the period displayed. The percentage of non-backbone state highways in very good or excellent conditions has grown from 35.1% in 2017 to 41.3% in 2022, but the percentage of backbone state highways in either fair or poor condition also increased from 5.2% in 2017 to 8.5% in 2022. Some notes can also be made regarding these data. First, DOT also operates other programs that could impact state highway conditions, such as the state highway maintenance and traffic operations program, which conducts a variety of activities to maintain state highways including minor pavement repair, and the major highway development and southeast Wisconsin freeway megaprojects programs, which fund larger, more costly projects to reconstruct portions of the state highway system. Thus, the data may not provide a perfect indication of the SHR program's performance. Second, some SHR projects may take several years to complete. As a result, the state highway pavement condition data displayed for 2022 may not completely reflect the additional funding that has been provided to the program since the 2019-21 budget, including the additional federal funding received by the program under IIJA.

8. Table 3 shows the SHR program's adjusted base funding level for the 2023-25 biennium (including standard budget adjustments), as well as the amounts recommended for the program under AB 43/SB 70. The bills would provide total funding of $2,214.6 million to the program in 2023-25, which is 0.3% higher than the program's actual funding level in 2021-23 after including the additional federal aid provided under IIJA, and 5.5% higher than the program's 2023-25 annual adjusted base funding doubled.

TABLE 3

State Highway Rehabilitation Program Funding --
Comparison of Base Funding to AB 43/SB 70

		AB 43/SB 70*		
Fund	Adjusted Base *	2023-24	2024-25	Biennial Total
SEG	$560,203,600	$580,432,300	$609,489,800	$1,189,922,100
FED	489,402,600	513,623,700	511,093,000	1,024,716,700
Total	$1,049,606,200	$1,094,056,000	$1,120,582,800	$2,214,638,800
% Change to Adj. Base Doubled				5.5%

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments, but do not include the 5% turnover reduction adopted for the program under Motion #12.

9. Through earlier action under Motion #12, the Committee reduced the total funding available to the SHR program in the biennium by increasing the turnover reduction standard budget adjustment from 3% to 5%, associated with program staffing costs. In order to match the program funding in AB 43/SB 70, the Committee would have to provide that same level of funding back to the program, which would allow the funding to be used the program's project construction costs.

10. The alternatives discussed in this paper include the AB 43/SB 70 recommendation for the SHR program, as well as two primary alternatives for program funding: (a) alternatives to substitute some of the recommended SEG with FED funding; and (b) an alternative to provide general purpose revenue (GPR) to the program. A third alternative would supply funding to the program associated with Motion #12, which increased the turnover to 5%. Table 4 provides a comparison of the program's funding levels under each alternative discussed in the paper.

TABLE 4

Potential State Highway Rehabilitation Program Funding Levels

	2023-25 Biennium			
Potential Funding Levels	SEG	FED	GPR	Total
A. Federal Funding and Segregated Revenue				
AB 43/SB 70 (Alt. A1)	$1,189,922,100	$1,024,716,700	$0	$2,214,638,800
Swap FED with SE Megas (Alt. A2)	1,173,594,700	1,041,044,100	0	2,214,638,800
Additional FED (Alt. A3)	1,151,244,700	1,063,394,100	0	2,214,638,800
Base Budget (Alt. A4)	1,120,407,200	978,805,200	0	2,099,212,400
B. General Purpose Revenue				
Provide GPR (Alt. B1)	-$100,000,000	$0	$100,000,000	$0
Base Budget (Alt. B2)	0	0	0	0
C. Restore Turnover Reduction Funding				
Motion #12 - 5% Turnover	- $1,221,800	- $1,289,600	$0	- $2,511,400
Restore Turnover Reduction (Alt. C1)	1,221,800	1,289,600	0	2,511,400
Base Budget (Alt. C2)	0	0	0	0

A. Federal Funding and Segregated Revenue

11. AB 43/SB 70 would provide total funding of $2,214.6 million for the SHR program. This would increase the program's funding level by 0.3% compared to 2021-23, after the program's biennial funding level had increased by 35.7% between the 2017-19 and 2021-23 biennia. While program funding has increased in recent years, inflationary demands have also grown in the transportation sector. The U.S. consumer price index increased by 5.0% in the one year between March, 2022 and March, 2023, and by 14.0% over the two years prior to March, 2023. Over the same period, the Department's construction cost index, which tracks prices on a weighted "basket" of construction inputs such as asphalt, concrete pavement, and labor, rose by 19.0% in one year and 30.5% over two years. DOT notes that the actual cost increases observed in its projects may be less than what its construction cost index would suggest. For example, through May, 2023, the overall cost of lets for DOT projects in the 2022-23 fiscal year were only 4.8% higher than anticipated in project budgets. Whatever the level of inflation, cost increases may lead to decreased real return on investment for funding provided to the SHR program.

12. The Department indicates that the recommended funding level would be necessary to maintain its current six-year program of SHR projects in the 2023-25 biennium. This conclusion in based on an analysis conducted by the Department, which was used to determine the level of funding that is necessary to maintain purchasing power in the program given inflation in the transportation sector. This analysis further shows that if program funding were adjusted for inflation in this manner over the next ten years (from 2023-25 through 2031-33), it would result in 20.0% of roadway miles on the state highway system being in poor condition at the end of the 2031-33 biennium, while if the program's funding level were maintained without being adjusted for inflation over this period, it would result in 24.2% of state highway miles being in poor condition at the end of the 2031-33

biennium. Thus, DOT's analysis suggests that continued funding increases would be needed in the SHR program to prevent a decline in pavement conditions on the state highway system. Table 5 shows the recommended funding level for the SHR program under AB 43/SB 70. [Alternative A1]

TABLE 5

State Highway Rehabilitation Program Funding -- AB 43/SB 70 Recommendation

	Alternative A1*		
Fund	2023-24	2024-25	Biennial Total
SEG	$580,432,300	$609,489,800	$1,189,922,100
FED	513,623,700	511,093,000	1,024,716,700
Total	$1,094,056,000	$1,120,582,800	$2,214,638,800

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments, but do not include the 5% turnover reduction adopted for the program under Motion #12.

13. While the bills would allocate $1,189.9 million SEG to the SHR program in 2023-25, limited SEG revenues may be available in the biennium. Projected transportation revenues have been revised downward in the biennium from the amounts recommended in AB 43/SB 70, as revenue collections in 2022-23 are lower than expected and relevant economic outlook factors for 2023-25 have worsened since the bill was introduced. Meanwhile, demands for the expenditure of transportation fund revenues may increase in 2023-25 and beyond due to large upcoming projects, such as the I-41 from Appleton to De Pere, I-94 East-West, and the Blatnik Bridge reconstruction projects, the southern bridge construction project in Brown county, and inflationary demands across transportation programs.

14. In a separate paper for the southeast megaprojects program, an alternative is provided to supply $8.2 million annually in additional SEG to the southeast megaprojects program to meet federal match requirements, and make a corresponding reduction of $8.2 million FED annually for the program. If this alternative for the southeast megaprojects program were adopted, the additional $8.2 million FED annually that would be made available under the alternative could instead be allocated to the SHR program, which would mitigate any strain on transportation fund SEG revenues in the biennium. In addition to the funding provided under Alternative A1, this alternative would provide $8,163,700 FED annually and a corresponding reduction of $8,163,700 SEG annually for the SHR program, as shown in Table 6. [Alternative A2]

TABLE 6

State Highway Rehabilitation Program Funding --
Swap FED with Southeast Wisconsin Freeway Megaprojects Program

	Alternative A2*		
Fund	2023-24	2024-25	Biennial Total
SEG	$572,268,600	$601,326,100	$1,173,594,700
FED	521,787,400	519,256,700	1,041,044,100
Total	$1,094,056,000	$1,120,582,800	$2,214,638,800

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments, but do not include the 5% turnover reduction adopted for the program under Motion #12.

15. Similarly, further reductions in SHR SEG funding in the 2023-25 biennium could be made by reallocating additional FED associated with two other AB 43/SB 70 recommendations. These FED amounts could be swapped for SEG funding in the SHR program. As outlined in separate individual papers, these actions would be to: (a) provide half of the recommended federal funding ($6.2 million FED annually) for DOT's highway system management and operations appropriation (see paper #789); and (b) reallocate $5.0 million annually in recommended funding for the local bridge improvement assistance program to the SHR program (see paper #775). [The additional $5.0 million annually that would be reallocated from the AB 43/SB 70 local bridge program recommendation could only be used for improving highway bridges under this alternative, as this funding would be provided from the federal bridge formula program.] This action could be taken in addition to swapping FED funding with the southeast megaprojects program under Alternative A2, and would result in an additional $11.2 million FED annually being swapped for SEG in the SHR program, as shown in Table 7. This would reduce SHR SEG funding by $22.4 million in the 2023-25 biennium. [Alternative A3]

TABLE 7

State Highway Rehabilitation Program Funding --
Additional FED

	Alternative A3*		
Fund	2023-24	2024-25	Biennial Total
SEG	$561,093,600	$590,151,100	$1,151,244,700
FED	532,962,400	530,431,700	1,063,394,100
Total	$1,094,056,000	$1,120,582,800	$2,214,638,800

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments, but do not include the 5% turnover reduction adopted for the program under Motion #12.

16. The Department uses both SEG and FED revenues for a variety of state operations, like

Division of Motor Vehicles services and State Patrol, as well maintenance of the state's highway infrastructure. The question arises as to whether the state's transportation fund has the financial ability to support both local highway infrastructure and the state highway infrastructure. AB 43/SB 70 recommends a 4% annual increase to general transportation aids, the local roads improvement program (LRIP), and mass transit operating assistance, and would also provide $50,000,000 SEG annually on an ongoing basis for an LRIP-supplemental program. When transportation fund revenues are committed to these local programs, especially on a recurring basis, it reduces the amount of revenues available to fund DOT operations and the state highway improvement program. This could again put pressure on the ability of the transportation fund to meet the state's obligations on the state highway system without additional resources or bonding, which may constrain the Department's ability to provide additional funding to the SHR program.

17. In addition, the Department's FED appropriation for the SHR program is an all moneys received appropriation, which allows the Department to spend additional federal aid in the program beyond the amounts in the schedule of appropriations, with approval from the Department of Administration. Thus, even if the additional recommended FED for the SHR program were denied, as in the past, the Department could allocate any additional FED it receives to the SHR program. In past years, when the Department receives a larger than expected amount of federal transportation aid, it has often allocated excess funds to the SHR program, which maintains a large inventory of projects that can be advanced if necessary.

18. In past years, the Department has on occasion reallocated FED from other programs to the SHR program when those programs were unable to entirely obligate designated federal funds by the end of the federal fiscal year. For example, this occurred in 2021-22 with the surface transportation program (STP), which awards grants of federal funds to local governments for projects to improve local roads. The Department initially solicited local STP projects in 2021-22, but later some of the approved local projects became ineligible because some recipients were unable to deliver the project in a timely manner, or were unable to comply with federal rules. The Department then reallocated those funds (with approval from the Department of Administration) to the SHR program, which has an inventory of projects that are ready to advance, in order to obligate the funding before the end of the federal fiscal year and avoid federal penalties. This is another means in which additional federal funds are provided to the SHR program beyond what is initially budgeted.

19. Increased funding has also been provided to the SHR program in recent years, as the program's biennial funding level was increased by 35.7% between the 2017-19 and 2021-23 biennia. This is due in part to the Department's allocation of additional FED to the program following the enactment of IIJA. Given that additional funding has been provided to the SHR program in past years, that the Department is capable allocate additional FED to the program outside of the budget process, as applicable, and that limited transportation fund revenues are available in 2023-25, the program's base funding level could be retained. This would provide base level funding of $2,099.2 million to the program in the biennium, which would be less than program funding in the 2021-23 biennium when the program received additional federal funds under IIJA, but would still be greater than the program's pre-IIJA biennial funding level of $1,937.8 million in 2019-21. Table 8 shows adjusted the adjusted base level that would be provided to the program under this alternative. [Alternative A4]

TABLE 8

Southeast Wisconsin Freeway Megaprojects Program Funding -- 2023-25 Base Budget

	Alternative A4*		
Fund	2023-24	2024-25	Biennial Total
SEG	$560,203,600	$560,203,600	$1,120,407,200
FED	489,402,600	489,402,600	978,805,200
Total	$1,049,606,200	$1,049,606,200	$2,099,212,400

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments, but do not include the 5% turnover reduction adopted for the program under Motion #12.

B. Provide General Purpose Revenue

20. While limited SEG revenues may be available from the transportation fund in the 2023-25 biennium, the general fund has large one-time revenues available in 2023-24. The use of general fund revenues for transportation may also be justified on the grounds that the state's transportation system contributes to the health of the overall economy, beyond just the users of the transportation system who bear most of its costs (via user fees such as the motor fuel tax and vehicle registration fees). To provide an adequate level of funding to maintain purchasing power in the SHR program and prevent the deterioration of state highway pavement conditions, while limiting transportation fund expenditures, $100.0 million GPR could be provided to the SHR program in 2023-24, and a corresponding amount of SEG funding could be reduced from the program. This would also require the creation of a continuing GPR appropriation for the SHR program in order to expend these funds. [Alternative B1] This alternative could also be denied if the surplus one-time GPR revenues that are available in 2023-24 are used for other purposes. [Alternative B2]

C. Restore Turnover Reduction Funding

21. Under Motion #12, the Committee earlier approved SEG and FED standard budget adjustments for the SHR program, but also modified the standard budget adjustments under AB 43/SB 70 by increasing the turnover reduction standard budget adjustment from 3% to 5%. This revision to the turnover reduction standard budget adjustment resulted in a decrease of base funding for the program, as shown in Table 8. This change is not reflected in the discussion on the earlier alternatives in the paper.

TABLE 9

2023-25 State Highway Rehabilitation Program
5% Turnover Reduction under Motion #12

	SEG	FED	Total
Adjusted Base Funding Level	$560,203,600	$489,402,600	$1,049,606,200
5% Turnover Reduction (Motion #12)	-610,900	-644,800	-1,255,700
Program Prior to Further JFC Action	$559,592,700	$488,757,800	$1,048,350,500

22. As shown in the table, this action alone resulted in a decrease in total funding for the southeast megaprojects program of $1,255,700 annually. The decreases of $610,900 SEG and $644,800 FED annually could be restored to the SHR program in order to provide the same amount of funding for the program as the amount recommended in AB 43/SB 70. This alternative could also include a specification requiring that the restored funding would be used for programmatic expenditures, rather than personnel expenditures. [Alternative C1]

23. The Committee's prior decision under Motion #12 to increase the program's turnover reduction standard budget adjustment would be maintained if no further action is taken. This would result in less funding being provided to the program than would be provided under the bill. [Alternative C2]

ALTERNATIVES

A. Federal Funding and Segregated Revenue

1. Provide increases of $20,228,700 SEG in 2023-24 and $49,286,200 SEG in 2024-25, and $24,221,100 FED in 2023-24 and $21,690,400 FED in 2024-25 to the state highway rehabilitation program.

ALT A1	Change to Base
FED	$45,911,500
SEG	69,514,900
Total	$115,426,400

2. Provide increases of $12,065,000 SEG in 2023-24 and $41,122,500 SEG in 2024-25, and $32,384,800 FED in 2023-24 and $29,854,100 FED in 2024-25 to the state highway rehabilitation program.

ALT A2	Change to Base
FED	$62,238,900
SEG	53,187,500
Total	$115,426,400

3. Provide increases of $890,000 SEG in 2023-24 and $29,947,500 SEG in 2024-25, and $43,559,800 FED in 2023-24 and $41,029,100 FED in 2024-25 to the state highway rehabilitation program.

ALT A3	Change to Base
FED	$84,588,900
SEG	30,837,500
Total	$115,426,400

4. Take no action. Adjusted base level funding of $2,099.2 million would be provided to the state highway rehabilitation in the 2023-25 biennium.

B. Provide General Purpose Revenue

1. Create a continuing GPR appropriation for the state highway rehabilitation program, and provide $100,000,000 GPR to the program in 2023-24. Provide a corresponding reduction of $100,000,000 SEG for the program in 2023-24.

ALT B1	Change to Base
GPR	$100,000,000
SEG	- $100,000,000
Total	$0

2. Take no action.

C. Restore Turnover Reduction Funding

1. Provide $610,900 SEG and $644,800 FED annually for the southeast Wisconsin freeway megaprojects program, in order to restore funding for the program that was previously reduced under Motion #12, which increased the turnover reduction standard budget adjustment for the program from 3% to 5%. Specify that this funding be used for programmatic expenditures, rather than personnel expenditures.

ALT C1	Change to Base
FED	$1,289,600
SEG	1,221,800
Total	$2,511,400

2. Take no action.

Prepared by: Peter Mosher
Attachment

ATTACHMENT 1

Recent Biennial Funding Levels for Three Main Components of State Highway Improvement Program ($ in Millions)

Biennium	State Highway Rehabilitation	Major Highway Development	Southeast Wisconsin Freeways	Total
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	2,725.5
2019-21	1,937.8	564.2	226.4	2,728.4
2021-23	2,207.2*	565.6	82.0	2,854.8
2023-25**	$2,214.6	$591.3	$237.8	$3,043.7

Biennium	State Highway Rehabilitation	Major Highway Development	Southeast Wisconsin Freeways	Total
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	19.7	100.0
2019-21	71.0	20.7	8.3	100.0
2021-23	77.3*	19.8	2.9	100.0
2023-25**	72.8%	19.4%	7.8%	100.0%

*SHR program funding in the 2021-23 biennium was increased by $123.6 million in 2021-22 and $15.6 million in 2022-23 under DOT federal funding plans in each year of the biennium, as approved by the Joint Committee on Finance.
**Amounts shown for 2023-25 reflect recommended funding under AB 43/SB 70.

ATTACHMENT 2

Current Regional State Highway Funding Allocations

Allocations	% of Total Funding
Regions (Non-Backbone)*	
Southwest Region	20.4%
Southeast Region	13.7
Northeast Region	7.2
North Central Region	9.0
Northwest Region	13.4
Subtotal	63.6%
Centrally-Scheduled (Backbone)	36.4%
Total	100.0%

Note: 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 1,588-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.

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June 6, 2023 | Joint Committee on Finance | Paper #786

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

[LFB 2023-25 Budget Summary: Page 643, #3]

CURRENT LAW

The Department of Transportation (DOT) 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 2021-23 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 $123,700,000 (in 2022 dollars), or, that has a total cost in excess of $49,500,000 (in 2022 dollars) 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. All major highway development projects must be approved by the Transportation Projects Commission (TPC) prior to DOT beginning construction. Projects exceeding the $49.5 million cost threshold, and meeting the capacity expansion definitions, must also 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 $123.7 million. Exceptions to these standards are provided for southeast Wisconsin freeway megaprojects (exceeding $828.3 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. DOT's state highway improvement program is responsible for the construction, reconstruction, and rehabilitation of the state's 11,750-mile state trunk highway system, consisting of interstate highways, U.S. highways, and state highways. The program is made up of three main components: (a) the state highway rehabilitation program; (b) the major highway development ("majors") program; and (c) the southeast Wisconsin freeway megaprojects program. As shown in the attachment, the majors 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. In addition to these programs, DOT also operates the major interstate bridge program, which constructs or reconstructs state highway bridges crossing a river that forms that boundary of the state, for which the state's share of costs is estimated to exceed $100 million. Assembly Bill 43/Senate Bill 70 (AB 43/SB 70) would authorize $47.2 million in transportation fund-supported bonds for the major interstate bridge program in 2023-25 to initiate a project to reconstruct the John A. Blatnik Bridge, which spans between the City of Superior with Duluth, Minnesota.

2. Major highway projects that meet at least one of the statutory capacity expansion criteria must be enumerated in the statutes before DOT can begin construction. These projects must also be approved by the TPC before enumeration. The TPC is 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 also be approved by the TPC prior to construction, but do not need to be enumerated in the statutes.

3. 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 majors and southeast Wisconsin freeway megaprojects programs. Table 1 shows the Department's most recent report to the TPC in February, 2023, indicated that total project costs of $660.8 million are expected in the 2023-25 biennium for the majors program.

TABLE 1

Major Highway Development Program Planned Expenditures
($in Millions)

	February, 2023, TPC Report*		
	2023-24	2024-25	Biennium
Planned Expenditures -- Existing Projects			
I-41: STH 96 to Scheuring Rd	$59.5	$263.9	$323.4
I-39/90/94: Bridges over Wisconsin River**	146.8	3.7	150.5
I 43: Silver Spring Dr to STH 60	80.4	11.0	91.4
USH 51: I-39/90 to USH 12/18	12.7	45.5	58.2
STH 15: STH 76 to New London	26.3	9.2	35.5
I-39/90/94: USH 12 to Illinois Border	1.1	0.7	1.8
Total	$326.8	$334.0	$660.8

*Reflects inflation-adjusted costs estimates reported by DOT to the TPC in February, 2023.
**The I-39/90/94 Wisconsin River Bridges Project received an $80.0 million award from the federal INFRA grant program in September, 2022.

4. As shown in the table, nearly half of the expenditures anticipated for the program in the 2023-25 biennium are expected to be used for the I-41 expansion project in Outagamie and Brown counties. The project will make improvements to 23 miles of the interstate between Appleton and De Pere by expanding the roadway from four to six lanes, reconstructing or improving nine existing interchanges, adding auxiliary entrance and exit lanes along portions of the roadway, and constructing a new interchange on Southbridge Road in De Pere. The total estimated cost of the project is $1.1 billion, with significant construction costs expected to continue through the 2025-27 biennium.

5. The Department also anticipates significant expenditures in 2023-25 for the project to replace the I-39/90/94 bridges over the Wisconsin River in Columbia County. The current bridges carry six lanes of divided interstate that connect the interstate system between major cities including Chicago, Minneapolis, and Milwaukee, and serve as an important freight, travel, and tourism corridor. This project will replace the existing bridges, which were constructed in 1961 and are reaching the end of their useful life, with two new bridge spans, and will also replace two bridges located on nearby county roads (CTH U and CTH V). The total estimated project cost is $158.9 million in year of expenditure costs, including $5.7 million that has already been committed, $150.5 million that would be expended in the 2023-25 biennium, and $2.7 million that would be expended in the 2025-27 biennium. However, DOT received a federal grant of $80.0 million for the project in September, 2022 from the federal Infrastructure for Rebuilding America (INFRA) program, which will assist DOT in funding costs for the project.

6. Table 2 shows the majors program's adjusted base funding level for the 2023-25 biennium (including standard budget adjustments), as well as the amounts recommended for the program under Assembly Bill 43/Senate Bill 70 (AB 43/SB 70). The $591.3 million recommended under the bill for the program in the 2023-25 biennium, alongside the $80.0 million federal grant that

has been provided for the I-39/90/94 Wisconsin River bridges project, would be sufficient to fund the $660.8 million in expenditures that are anticipated for the program in the biennium. This funding level is 4.5% higher than the program's funding level in 2021-23, and 3.9% higher than the program's 2023-25 annual adjusted base funding doubles.

TABLE 2

Major Highway Development Program Funding -- Comparison of Base Funding to AB 43/SB 70

	Adjusted	AB 43/SB 70*		
Fund	Base Plus Bonds*	2023-24	2024-25	Biennial Total
SEG	$25,523,500	$25,111,600	$37,721,400	$62,833,000
FED	185,431,200	189,832,800	191,617,500	381,450,300
Gen. Ob. Bonds (SEG)	73,511,600**	73,511,600	73,511,600	147,023,200
Total	$284,466,300	$288,456,000	$302,850,500	$591,306,500
% Change to Adj. Base Doubled				3.9%

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments, but do not include the 5% turnover reduction adopted for the program under Motion #12.
**Amount shown includes $10.4 million in existing revenue bond proceeds associated with premiums from previously issued bonds.

7. Through earlier action under Motion #12, the Committee reduced the total funding available for the majors program in the biennium by increasing the turnover reduction standard budget adjustment from 3% to 5%. In order to match the program funding in AB 43/SB 70, the Committee would have to provide that same level of funding back to the program, which would allow the funding to be used for other program costs.

8. The alternatives discussed in this paper include the AB 43/SB 70 recommendation for the majors program, as well as two primary alternatives for program funding: (a) an alternative to provide less SEG to the program than the amount recommended under the bill; and (b) an alternative to substitute some or all of the recommended bonding with one-time GPR funding. A third alternative would supply funding to the program that was decreased under Motion #12. In order to match or provide near the same amount of funding for the program as AB 43/SB 70, one alternative from each set of alternatives would need to be chosen. Table 3 provides a comparison of the program's funding levels under each alternative discussed in the paper.

TABLE 3

Potential Major Highway Development Program Funding Levels

Potential Funding Levels*	2023-25 Biennium SEG	FED	Bonds	GPR	Total
A. Federal Funding and Segregated Revenue					
AB 43/SB 70 (Alt. A1)	$62,833,000	$381,450,300	$0	$0	$444,283,300
Fund Program Needs (Alt. A2)	52,326,500	381,450,300	0	0	433,776,800
Base Budget (Alt. A3)	51,047,000	370,862,400	0	0	421,909,400
B. Bonding and General Purpose Revenue					
AB 43/SB 70 -- TRB Bonding (Alt. B1)	- $7,736,600	$0	$147,023,200	$0	$147,023,200
GPR in Lieu of TRB (Alt. B2)	0	0	0	147,023,200	147,023,200
GPR and TRB Bonding (Alt. B3)	0	73,511,600		73,511,600	147,023,200
GPR Bonding (At. B4)	0	0	147,023,200	0	147,023,200
Base Budget (Alt. B5)	0	0	0	0	0
C. Restore Turnover Reduction Funding					
Motion #12 -- 5% Turnover	-$38,600	-$212,400	$0	$0	-$251,000
Restore Turnover Reduction (Alt. C1)	38,600	212,400	0	0	251,000
Base Budget (Alt. C2)	0	0	0	0	0

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments.

A. Federal Funding and Segregated Revenue

9. AB 43/SB 70 would provide total funding of $591.3 million for the majors program, which would increase the program's funding level by 4.5% from the $565.6 million provided to the program in the 2021-23 biennium. This funding increase may be justified given inflationary demands in the transportation sector. The U.S. consumer price index increased by 5.0% in the one year between March, 2022 and March, 2023, and by 14.0% over the two years prior to March, 2023. Over the same period, the Department's construction cost index, which tracks prices on a weighted "basket" of construction inputs such as asphalt, concrete pavement, and labor, rose by 19.0% in one year and 30.5% over two years. However, DOT notes that the actual cost increases observed in its projects may be less than what its construction cost index would suggest. For example, through May, 2023, the overall cost of lets for DOT projects in 2022-23 were only 4.8% higher than anticipated in project budgets. Whatever the level of inflation, cost increases may lead to decreased real return on investment for funding provided to the majors program. As a result, additional funding may be needed to maintain purchasing power in the program.

10. The additional funding recommended under the bill includes an increase of $10.5 million FED in the 2023-25 biennium, which would be provided from additional federal transportation aid that is anticipated to be available to the Department from the federal Infrastructure Investment and Jobs Act (IIJA). IIJA was enacted in 2021, and is expected to provide state with an increased level of federal transportation funding in the five years following its enactment (2021-22 through 2025-26). As a result, AB 43/SB 70 would provide the Department with revenue increases of $192.7 million FED in 2023-24 and $211.3 million FED in 2024-25. The bill would utilize some of these additional federal funds for the majors program. The bill would also provide additional funding of $11.8 million

SEG to the program in the biennium. Table 4 shows the recommended SEG and FED funding for the majors program in 2023-25 under the bill. [Alternative A1]

TABLE 4

Major Highway Development Program Funding -- AB 43/SB 70 Recommendation

	Alternative A1*		
Fund	2023-24	2024-25	Biennial Total
SEG	$25,111,600	$37,721,400	$62,833,000
FED	189,832,800	191,617,500	381,450,300
Total	$214,944,400	$229,338,900	$444,283,300

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments, but do not include the 5% turnover reduction adopted for the program under Motion #12.

11. While AB 43/SB 70 would provide total funding of $591.3 million to the majors program, the Department estimates program costs of $660.8 million in the biennium, and has already received a federal award of $80.0 million for the I-39/90/94 Wisconsin River bridges project. Thus, only $580.8 million in program funding would be required in the biennium, which is $10.5 million less than the recommended program funding level in the bill. In addition, limited SEG revenues may be available from the transportation fund in 2023-25. Revenue collections in 2022-23 are lower than expected and relevant economic outlook factors for 2023-25 have worsened since the bill was introduced. Thus, projected transportation revenues were revised downward in the biennium from the amounts recommended in AB 43/SB 70. To decrease the amount of SEG appropriated to the majors program, while still providing sufficient funding to advance recommended projects, the Committee could decrease the amount of additional SEG recommended under the bill by $10,506,500 in 2024-25. Table 2 shows the SEG and FED funding that would be provided to the majors program under this alternative. [Alternative A2]

TABLE 5

Major Highway Development Program Funding -- Fund Program Needs

	Alternative A2*		
Fund	2023-24	2024-25	Biennial Total
SEG	$25,111,600	$27,214,900	$52,326,500
FED	189,832,800	191,617,500	381,450,300
Total	$215,356,300	$218,420,500	433,776,800

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments, but do not include the 5% turnover reduction adopted for the program under Motion #12.

12. The Department uses both SEG and FED revenues for a variety of state operations, like Division of Motor Vehicles services and State Patrol, as well maintenance of the state's highway infrastructure. The question arises as to whether the state's transportation fund has the financial ability to support both local highway infrastructure and the state highway infrastructure. AB 43/SB 70 recommends a 4% annual increase to general transportation aids, the local roads improvement program (LRIP), and mass transit operating assistance, and would also provide $50,000,000 SEG annually on an ongoing basis for an LRIP-supplemental program. When transportation fund revenues are committed to these local programs, especially on a recurring basis, it reduces the amount of revenues available to fund DOT operations and the state highway improvement program. This could again put pressure on the ability of the transportation fund to meet the state's obligations on the state highway system without additional resources or bonding.

13. Given the limited availability of transportation fund revenues in the 2023-25 biennium, the majors program's adjusted base level funding could be retained. If base funding would be provided, the composition of program funding (SEG and FED) would reflect the 2022-23 adjusted base, plus the standard budget adjustments adopted by the Committee [excluding the 5% turnover reduction decision]. This alternative would not fully fund the current TPC cost schedule for the 2023-25 biennium and would likely lead to delays in the current schedules for certain majors projects. Specifically, the Department indicates that the I-41 project in Brown and Outagamie counties would likely be delayed if the recommended funding for the program were reduced. Table 6 shows the SEG and FED funding that would be provided to the majors program under this alternative. [Alternative A3]

TABLE 6

Major Highway Development Program Funding -- Base Budget

	Alternative A3*		
Fund	2023-24	2024-25	Biennial Total
SEG	$25,523,500	$25,523,500	$51,047,000
FED	185,431,200	185,431,200	370,862,400
Total	$210,954,700	$210,954,700	421,909,400

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments, but do not include the 5% turnover reduction adopted for the program under Motion #12.

B. Bonding and General Purpose Revenue

14. In addition to recommending FED and SEG for the majors program, AB 43/SB 70 would also authorize $73.5 million annually in transportation revenue bonds, which is identical to the amount of bonds provided for the program in 2022-23. The Department traditionally utilizes transportation revenue bonds to fund the majors program, as bonding carries several advantages, particularly for large infrastructure projects. Because bonding spreads the costs of a project over its useful life, it allows future users to share in the cost of the project. Bonding also reduces the need to raise taxes or reduce expenditures on other transportation programs in order to cash-finance large

projects all at once. As indicated earlier, the total funding recommended under the bill, including the $147.0 million in recommended bonds, would be sufficient to fund the recommended majors projects in the 2023-25 biennium. Estimated reductions to transportation fund revenue associated with the partial issuance of the bonds under the Governor's recommendations would equal $918,900 in 2023-24 and $6,817,700 in 2024-25. Once fully issued, estimated debt service on the bonds associated with this alternative would equal $11,797,500 annually. [Alternative B1]

15. While bonding for the majors program carries advantages, bonding also requires the Department to commit ongoing revenues for debt service payments, which include interest costs. To avoid an unsustainable level of debt service costs in the transportation fund, Department has traditionally targeted amounts of bonding that would correspond to a "healthy" level of debt service costs. In the past, a goal had been to maintain annual debt service costs that are 10% or less of gross transportation fund revenues. Table 7 provides a comparison of debt service costs and gross revenue for the transportation fund over the past 15 years.

TABLE 7

Annual Growth in Gross Transportation Fund Revenue (Excluding Federal Aid, Bond Revenue, and Transfers from Other Funds) and Transportation Fund-Supported Debt Service ($ in Millions)

Fiscal Year	Gross Transportation Revenue	Transportation Debt Service*	Debt Service as a % of Revenue
2007-08	$1,661.0	$187.5	11.3%
2008-09	1,687.3	191.0	11.3
2009-10	1,697.9	184.8	10.9
2010-11	1,715.9	197.2	11.5
2011-12	1,743.9	240.7	13.8
2012-13	1,720.3	259.5	15.1
2013-14	1,784.6	294.2	16.5
2014-15	1,808.4	314.4	17.4
2015-16	1,867.4	340.8	18.2
2016-17	1,870.7	356.2	19.0
2017-18	1,916.5	357.6	18.7
2018-19	1,912.6	362.3	18.9
2019-20	2,006.2*	371.1	18.5
2020-21	2,101.2*	361.8	17.2
2021-22	2,159.2	358.4	16.6

* Does not reflect general fund-supported debt service on bonds authorized and issued for transportation purposes.
**Vehicle title fees and certain vehicle registration fees were increased effective on October 1, 2019.

16. As shown in the table, annual debt service has exceeded the 10% debt service goal for each year shown. However, debt service as a percentage of revenue peaked in 2016-17 and has been declining more recently, primarily due to: (a) the introduction of additional revenue sources for the transportation fund, such as an increase to registration and title fees in the 2019-21 budget; and (b) the conclusion of large projects, which has reduced the need for new bonding. While DOT's debt service obligations have moderated in recent years, large upcoming projects such as the I-41 from Appleton to De Pere, I-94 East-West, and the Blatnik Bridge reconstruction projects, and the southern bridge construction project in Borwn County may introduce new demand for bonding and cause the transportation debt service to revenue ratio to begin increasing again.

17. While limited SEG revenues are available from the transportation fund for the improvement of both the state and local highway systems, including the debt service costs associated with the recommended bonding, the general fund has large one-time revenues available in 2023-24. The use of general fund revenues for transportation may also be justified on the grounds that the state's transportation system contributes to the health of the overall economy, beyond just the users of the transportation system who bear most of its costs (via user fees such as the motor fuel tax and vehicle registration fees). To provide an adequate level of funding to keep majors projects on schedule in 2023-25 and also fund local projects, while limiting ongoing transportation fund expenditures, the $147.0 million in recommended transportation revenue bonds be replaced with a one-time appropriation of $147.0 million GPR in 2023-24. A continuing GPR appropriation for the majors program would also need to be created in order to expend these funds. This would negate the $11.8 million annually in ongoing transportation fund debt service commitments that would be required under the bill. The base level SEG-S funding of $73.5 million annually for the majors program would also need to be deleted, to reflect that no additional transportation revenue bonds would be authorized in the biennium. [Alternative B2]

18. In considering the demands on the general fund, GPR could also be provided to replace only half of the recommended borrowing for the majors program. This alternative would provide $73.5 million GPR, and authorize $73.5 million in transportation revenue bonds. Estimated transportation fund-supported debt service associated with the partial issuance of the transportation revenue bonds in the biennium would be $459,500 in 2023-24 and $3,408,900 in 2024-25. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at $5,898,800 SEG annually, while an equal amount of annual debt service would be saved compared to AB 43/SB 70. This would require the creation of a continuing GPR appropriation for the majors program to expend the GPR funding, as well as a reduction in SEG-S funding of $36.8 million annually reflect the transportation revenue bonds that would be provided. [Alternative B3]

19. GPR-supported bonds have been used to fund state highway improvement program costs in the past, including for the majors program. Base level annual GPR debt service on previously issued bonds for the state highway improvement program is $87.6 million in 2023-25. Use of $73.5 million in GPR-supported bonds, rather than the recommended transportation revenue bonds, for the majors program in the 2023-25 biennium could be another strategy to provide the funding needed to advance majors projects, while limiting ongoing debt service costs in the transportation fund. This alternative would introduce ongoing debt service payments from the general fund, which could be funded with the state's ongoing general fund surplus. Like AB 43/SB 70, estimated general fund-supported debt

service associated with the partial issuance of these general obligation bonds in the biennium would be $918,900 GPR in 2023-24 and $6,817,700 in 2024-25. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at $11,797,500 GPR annually. [Alternative B4]

20. Providing no additional transportation revenue bonds would limit ongoing debt service costs to the transportation fund. If no additional bonding were authorized, the Department could utilize existing revenue bond authority or any available bond proceeds in the biennium. This alternative would not fully fund the current TPC cost schedule for the 2023-25 biennium and would likely lead to delays for multiple majors projects. In addition, under this alternative, base SEG-S authority would remain at $73,511,600, which would not be consistent with the level of transportation revenue bonds provided to the program. Table 8 displays the funding that would be provided to the majors program in 2023-25 under this alternative, but does not indicate any available bonding authority or bond proceeds that may be used. [Alternative B5]

C. Restore Turnover Reduction Funding

21. Under Motion #12, the Committee earlier approved SEG and FED standard budget adjustments for the majors program, but also modified the standard budget adjustments under AB 43/SB 70 by increasing the turnover reduction standard budget adjustment from 3% to 5%. This revision to the turnover reduction standard budget adjustment resulted in a decrease of funding for the program, as shown in Table 8. This change is not reflected in the discussion on the earlier alternatives in the paper, which instead reflect alternatives under the AB 43/SB 70 before Motion #12 was adopted.

TABLE 8

2023-25 Major Highway Development Program
5% Turnover Reduction under Motion #12

	SEG	FED	Total
Adjusted Base Funding Level	$25,523,500	$185,431,200	$210,954,700
5% Turnover Reduction (Motion #12)	-19,300	-106,200	-125,500
Program Prior to Further JFC Action	$25,504,200	$185,325,000	$210,829,200

22. As shown in the table, the Committee's action under Motion #12 resulted in a decrease in total funding for the majors program of $125,500 annually. The decreases of $19,300 SEG and $106,200 FED annually could be restored to the majors program in order to provide the same amount of funding for the program as the amount recommended in AB 43/SB 70. This could include a specification requiring that this funding be used for programmatic expenditures, rather than personnel expenditures. [Alternative C1]

23. The prior decision under Motion #12 to increase the program's turnover reduction standard budget adjustment could also be maintained with no further action. This would result in

slightly less funding being provided to the program than would be provided under the bill. [Alternative C2]

ALTERNATIVES

A. Federal Funding and Segregated Revenue

1. Make the following changes to funding for the major highway development program: (a) a decrease of $411,900 SEG in 2023-24 and an increase of $12,197,900 SEG in 2024-25; and (b) increases of $4,401,600 FED in 2023-24 and $6,186,300 FED in 2024-25.

ALT A1	Change to Base
SEG	$11,786,000
FED	10,587,900
Total	$22,373,900

2. Make the following changes to funding for the major highway development program: (a) a decrease of $411,900 SEG in 2023-24 and an increase of $1,691,400 SEG in 2024-25; and (b) increases of $4,401,600 FED in 2023-24 and $6,186,300 FED in 2024-25.

ALT A2	Change to Base
SEG	$1,279,500
FED	10,587,900
Total	$11,867,400

3. Take no action.

B. Bonding and General Purpose Revenue

1. Authorize $147,023,200 in additional transportation revenue bond authority for the major highway development program. Base level funding of $73,511,600 SEG-S annually would be maintained in the program for the expenditure of the transportation revenue bond proceeds. Reduce transportation fund revenue by $918,900 in 2023-24 and $6,817,700 in 2024-25 for the partial issuance of the transportation revenue bonds in the biennium. Once fully issued, estimated transportation fund revenue reductions associated with this alternative would equal $11.8 million annually.

ALT B1	Change to Base	
	Revenue	Funding
SEG	- $7,736,600	$0
TRB	0	147,023,200
Total	- $7,736,600	$147,023,200

2. Create a continuing GPR appropriation for the major highway development program, and provide $147,023,200 GPR under the appropriation in 2023-24. Provide a decrease of $73,511,600 SEG-S annually for the program to reflect the reduced level of transportation revenue bond proceeds that would be expended in the biennium.

ALT B2	Change to Base
GPR	$147,023,200
SEG-S	- 147,023,200
Total	$0

3. Create a continuing GPR appropriation for the major highway development program, and provide $73,511,600 GPR under the appropriation in 2023-24. Authorize $73,511,600 in additional transportation revenue bond authority for the program. Provide a decrease of $36,755,800 SEG-S annually for the program to reflect the reduced level of transportation revenue bond proceeds that would be expended in the biennium. Reduce transportation fund revenue by $459,500 in 2023-24 and $3,408,900 in 2024-25 for the partial issuance of the million in transportation revenue bonds in the biennium. Once fully issued, estimated transportation fund revenue reductions associated with this alternative would equal $5,898,800 annually.

ALT B3	Change to Base	
	Revenue	Funding
GPR	$0	$73,511,600
SEG	- 3,868,400	0
SEG-S	0	- 73,511,600
TRB	0	73,511,600
Total	- $3,868,400	$73,511,600

4. Authorize $147,023,200 in general fund-supported, general obligation bonds for the major highway development program in the 2023-25 biennium. Estimated general fund-supported debt service associated with the partial issuance of these general obligation bonds in the biennium would be $918,900 GPR in 2023-24 and $6,817,700 in 2024-25. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at $11,797,500 SEG annually.

ALT B4	Change to Base
GPR	$7,736,600
BR-GPR	147,023,200
Total	$154,759,800

5. Take no action

C. Restore Turnover Reduction Funding

1. Provide $19,300 SEG and $106,200 FED annually for the southeast Wisconsin freeway megaprojects program, in order to restore funding for the program that was previously reduced under Motion #12, which increased the turnover reduction standard budget adjustment for the program from 3% to 5%. Specify that this funding be used for programmatic expenditures, rather than personnel expenditures.

ALT C1	Change to Base
SEG	$38,600
FED	212,400
Total	$251,000

2. Take no action.

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Attachment

ATTACHMENT

Recent Biennial Funding Levels for Three Main Components of State Highway Improvement Program ($ in Millions)

Biennium	State Highway Rehabilitation	Major Highway Development	Southeast Wisconsin Freeways	Total
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	2,725.5
2019-21	1,937.8	564.2	226.4	2,728.4
2021-23	2,207.2*	565.6	82.0	2,854.8
2023-25**	$2,214.6	$591.3	$237.8	$3,043.7

Biennium	State Highway Rehabilitation	Major Highway Development	Southeast Wisconsin Freeways	Total
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	19.7	100.0
2019-21	71.0	20.7	8.3	100.0
2021-23	77.3*	19.8	2.9	100.0
2023-25**	72.8%	19.4%	7.8%	100.0%

*State highway rehabilitation program funding in the 2021-23 biennium was increased by $123.6 million in 2021-22 and $15.6 million in 2022-23 under DOT federal funding plans in each year of the biennium, as approved by the Joint Committee on Finance.
**Amounts shown for 2023-25 reflect recommended funding under AB 43/SB 70.

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June 6, 2023 Joint Committee on Finance Paper #787

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

[LFB 2023-25 Budget Summary: Page 645, #4]

CURRENT LAW

The Department of Transportation (DOT) southeast Wisconsin freeway megaprojects program funds highway improvement projects with an estimated cost exceeding $828.3 million in 2022 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 the statutory 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, the Zoo Interchange, and the I-94 East-West freeway projects are the only enumerated megaprojects.

A total of $82.0 million was provided for southeast Wisconsin freeway megaprojects in the 2021-23 biennium. This amount was comprised of $12.0 million in state funds, $40.0 million in general fund-supported, general obligation bonds, and $30.0 million of federal funds. All of these funds were provided for the I-94 East-West freeway project, which was also enumerated in the 2021-23 budget.

DISCUSSION POINTS

Background

1. DOT's state highway improvement program is responsible for the construction, reconstruction, and rehabilitation of the state's 11,750-mile state trunk highway system, consisting of interstate highways, U.S. highways, and state highways. The program is made up of three main

components: (a) the state highway rehabilitation program; (b) the major highway development program; and (c) the southeast Wisconsin freeway megaprojects ("southeast megaprojects") program. As shown in the attachment, the southeast megaprojects program has, historically, been the smallest of these programs, with a share of program funding typically ranging between 5% and 20%. In addition to these programs, DOT also operates the major interstate bridge program, which constructs or reconstructs state highway bridges crossing a river that forms that boundary of the state, for which the state's share of costs is estimated to exceed \$100 million. Assembly Bill 43/Senate Bill 70 (AB 43/SB 70) would authorize \$47.2 million in transportation fund-supported bonds for the major interstate bridge program in 2023-25 to initiate a project to reconstruct the John A. Blatnik Bridge, which spans between the City of Superior with Duluth, Minnesota.

2. The freeways in southeastern Wisconsin carry the most traffic of any roadways in the state, and provide statewide benefits for tourism, manufacturing, agriculture, and other sectors. Nearly all the freeways in Southeast Wisconsin were constructed between the 1950s and 1970s. Some have already been reconstructed, while others will require reconstruction in upcoming years. Any southeast Wisconsin freeway megaproject must be enumerated in the statutes prior to the start of construction. Since the southeast megaprojects program was created in the 2011-13 budget (replacing the southeast Wisconsin freeway rehabilitation program), three projects have been enumerated: (a) the I-94 North-South freeway, between the Mitchell Airport interchange in Milwaukee County and the Illinois state line; (b) the Zoo Interchange, at the junction of I-94, I-894, and USH 45 in western Milwaukee County; and (c) the I-94 East-West freeway corridor, between 16th Street and 70th street in Milwaukee County. Table 1 shows the program's biennial funding level since it was created in 2011-23, along with the recommended funding level for the 2023-25 biennium under Assembly Bill 43/Senate Bill 70 (AB 43/SB 70).

TABLE 1

Southeast Wisconsin Freeway Megaprojects Program Since 2011-13
(\$ in Millions)

Biennium	Funding
2011-13	\$420.0
2013-15	517.0
2015-17	414.6
2017-19	535.6
2019-21	226.4
2021-23	82.0
2023-25*	237.8*

*Amount shown for 2023-25 reflects recommended funding under AB 43/SB 70

3. The funding shown in Table 1 that was provided to the southeast megaprojects program through the 2019-21 biennium was allocated to the I-94 North-South and Zoo Interchange projects. Both of these projects are expected to be completed by the end of 2023, and no additional funding has been requested for either project since the 2019-21 biennium. Program funding in 2021-23 was

allocated to the I-94 East-West project, which was also enumerated in the 2021-23 budget. This project would reconstruct a 3.5 mile, six-lane stretch of the interstate in Milwaukee County by expanding the roadway to eight lanes and reconstructing several interchanges, including the stadium interchange near American Family Field. The funding provided in 2021-23 was provided to complete initial design and planning work for the project.

4. While southeast megaprojects program expenditures decreased in both 2019-21 and 2021-23, as the I-94 North-South and Zoo Interchange projects approached completion, program expenditures would increase in 2023-25 under AB 43/SB 70, as DOT would begin final design, real estate acquisition, and utility relocation work for the I-94 East-West freeway project. In upcoming biennia, program expenditures are expected to continue to increase, and could reach or surpass the funding levels provided for the program prior to 2019-21 as the I-94 East-West project enters the construction phase.

5. Table 2 shows the southeast megaprojects program's adjusted base funding level for the 2023-25 biennium (including standard budget adjustments), as well as the amounts recommended for the program under AB 43/SB 70. These funding recommendations would fully-fund the costs that are expected to be incurred on the I-94 East-West freeway project in the biennium.

TABLE 2

Southeast Wisconsin Freeway Megaprojects Program Funding -- Comparison of Base Funding to AB 43/SB 70

	Adjusted	AB 43/SB 70*		
Fund	Base Plus Bonds*	2023-24	2024-25	Biennial Total
SEG	$8,147,100	$0	$0	$0
FED	14,576,500	39,620,300	57,306,700	96,927,000
Gen. Ob. Bonds (SEG)	20,000,000	70,436,500	70,436,500	140,873,000
Total	$42,723,600	$110,056,800	$127,743,200	$237,800,000

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments, but do not include the 5% turnover reduction adopted for the program under Motion #12.

6. Through earlier action under Motion #12, the Committee reduced the total funding available to the southeast megaprojects program in the biennium by increasing the turnover reduction standard budget adjustment from 3% to 5%, associated with program staffing costs. In order to match the program funding in AB 43/SB 70, the Committee would have to provide that same level of funding back to the program, which would allow the funding to be used the program's project construction costs.

7. The alternatives discussed in this paper include the AB 43/SB 70 recommendation for the southeast megaprojects program, as well as two primary alternatives for program funding: (a) an alternative to substitute some of the recommended FED with SEG funding; and (b) an alternative to substitute some or all of the recommended bonding with one-time GPR funding. A third alternative

would supply funding to the program associated with Motion #12, which increased the turnover to 5%. In order to match or provide near the same amount of funding for the southeast megaprojects program as AB 43/SB 70, one alternative from each set of alternatives would need to be chosen. All of the funding provided to southeast megaprojects program in 2023-25 is expected to be allocated to the I-94 East-West project. Table 3 provides a comparison of the program's funding levels under each alternative discussed in the paper.

TABLE 3

Potential Southeast Wisconsin Freeway Megaprojects Program Funding Levels

	2023-25 Biennium				
Potential Funding Levels	SEG	FED	Bonds	GPR	Total
A. Federal Funding and Segregated Revenue*					
AB 43/SB 70 (Alt. A1)	$0	$96,927,000	$0	$0	$96,927,000
SEG Matching Funds (Alt. A2)	16,327,400	80,599,600	0	0	96,927,000
Base Budget (Alt. A3)	16,327,400	29,280,400	0	0	45,607,800
B. Bonding and General Purpose Revenue					
AB 43/SB 70 -- SEG Bonding (Alt. B1)	$0	$0	$140,873,000	$0	$140,873,000
GPR in lieu of Bonding (Alt. B2)	0	0	0	140,873,000	140,873,000
GPR and SEG Bonding (Alt. B3)	0	0	70,436,500	70,436,500	140,873,000
GPR Bonding (Alt. B4)	0	0	140,873,000	0	140,873,000
Base Budget (Alt. B5)	0	0	0	0	0
C. Restore Turnover Reduction Funding					
Motion #12 -- 5% Turnover	-$33,200	-$127,400	$0	$0	-$160,600
Restore Turnover Reduction (Alt. C1)	33,200	127,400	0	0	160,000
Base Budget (Alt. C2)	0	0	0	0	0

A. Federal Funding and Segregated Revenue

8. The current six-lane I-94 East-West corridor is experiencing a number of problems that merit reconstruction of the freeway. Of the 38 bridges located along the corridor, 36 remain from the highway's original construction in the 1950s and 1960s, and many are deteriorating. The corridor also has design deficiencies including interchanges that are closely spaced and contain both left-lane and right-lane exit and entrance ramps. Due in part to these design deficiencies, the corridor experiences approximately 1.3 crashes per day, and that crash rates observed throughout different portions of the corridor are two to four times the statewide average. In addition, the roadway can experience severe traffic congestion, particularly during peak hours. The Department indicates that the age and condition of the I-94 East-West corridor is such that the Department can no longer use rehabilitation and maintenance asset-management strategies to maintain the corridor safely and effectively.

9. The proposed I-94 East-West project would expand the roadway from six to eight lanes and reconstruct several interchanges, and is expected to lead to improved congestion and traffic safety outcomes throughout the corridor. DOT has worked over the past several years to establish the current preferred alternative for the project, which was approved by the federal highway administration in November, 2022. The Department indicates that it expects final federal approval for the project in the fall of 2023, that construction could begin in 2025, and that the current total estimated project cost is $1.28 billion. AB 43/SB 70 would provide total funding of $237.8 million for the project in the 2023-

25 biennium, which would be used for final design, real estate acquisition, and utility relocation work for the project. The Department states that if a lesser amount of funding was provided in the biennium, it could result in delays to the project's scheduled timeline, including postponement of the anticipated construction start date in 2025.

10. The recommended funding for the program in 2023-25 under AB 43/SB 70 includes $96.9 million FED, and no SEG funding. The decision to provide no SEG may be warranted given that limited SEG revenues may be available from the transportation fund in 2023-25. Projected transportation revenues have been revised downward in the biennium from the amounts recommended in AB 43/SB 70, as revenue collections in 2022-23 are lower than expected and relevant economic outlook factors for 2023-25 have worsened since the bill was introduced. Meanwhile, demands for the expenditure of transportation fund revenues may increase in 2023-25 and beyond due to large upcoming projects, such as the I-41 from Appleton to De Pere, I-94 East-West, and Blatnik Bridge reconstruction projects, the southern bridge construction project in Brown County, and inflationary demands across transportation programs.

11. While limited SEG revenues may be available in 2023-25, additional federal funds are expected to be provided to DOT in the biennium due to the enactment of the federal Infrastructure Investment and Jobs Act (IIJA). IIJA was enacted in 2021, and is expected to provide state with an increased level of federal transportation funding in the five years following its enactment (2021-22 through 2025-26). As a result, AB 43/SB 70 would provide the Department with revenue increases of $192.7 million FED in 2023-24 and $211.3 million FED in 2024-25 from the annual adjusted base funding level of $829.9 million, corresponding to the estimated additional federal transportation aid that the state is expected to receive in the biennium. The bill would appropriate some of these additional federal funds to the southeast megaprojects program to keep the I-94 East-West project on schedule, while limiting expenditures from the transportation fund, as shown in Table 4. [Alternative A1] [If this alternative were adopted, alternative C1 would also need to be adopted to prevent negative SEG funding from being appropriated to the southeast megaprojects program.]

TABLE 4

Southeast Wisconsin Freeway Megaprojects Program Funding -- AB 43/SB 70 Recommendation

	Alternative A1*		
Fund	2023-24	2024-25	Biennial Total
SEG	$0	$0	$0
FED	39,620,300	57,306,700	96,927,000
Total	$39,620,300	$57,306,700	$96,927,000

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments, but do not include the 5% turnover reduction adopted for the program under Motion #12.

12. Federal law requires that any federal transportation funds that are used for a project on the interstate system can be accompanied by a minimum 10% state match of total project funding. Thus, the I-94 East-West project must be funded with at least 10% state funds. However, AB 43/SB 70 would reduce base level SEG funding for the southeast megaprojects program to $0. While the recommended transportation fund-supported, general obligation bonds could be used to fulfill the state match requirement for the project, bonding cannot, or often should not, be used to fund certain project costs that are not long-term, physical structures or assets. Thus, to provide the recommended funding for the I-94 East-West project, while ensuring that base level SEG funding continues to be provided to the program, the program's adjusted base SEG funding level for 2023-25 could be retained, and a proportional amount of FED could be decreased from the amount recommended under the bills. This would provide $8,163,700 SEG annually, and $31,456,600 FED in 2023-24 and $49,143,000 FED in 2024-25 to the program, as shown in Table 5. [Alternative A2]

TABLE 5

Southeast Wisconsin Freeway Megaprojects Program Funding -- SEG Matching Funds

	Alternative A2*		
Fund	2023-24	2024-25	Biennial Total
SEG	$8,163,700	$8,163,700	$16,327,400
FED	31,456,600	49,143,000	80,599,600
Total	$39,620,300	$57,306,700	$96,927,000

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments, but do not include the 5% turnover reduction adopted for the program under Motion #12.

13. The Department uses both SEG and FED revenues for a variety of state operations, like Division of Motor Vehicles services and State Patrol, as well maintenance of the state's highway infrastructure. Denying the request would provide base level SEG funding of $8,163,700 SEG annually, and base level FED funding of $14,640,200, after accounting for Motion #12, as shown in Table 6. This would provide some support for the I-94 East-West project in the biennium, while freeing up transportation revenues for these other purposes. However, DOT indicates that this could cause delays to the I-94 East-West project schedule, including the anticipated construction start date for the project in 2025. [Alternative A3]

TABLE 6

Southeast Wisconsin Freeway Megaprojects Program Funding -- 2023-25 Base Budget

	Alternative A3*		
Fund	2023-24	2024-25	Biennial Total
SEG	$8,163,700	$8,163,700	$16,327,400
FED	14,640,200	14,640,200	29,280,400
Total	$22,803,900	$22,803,900	$45,607,800

*Amounts shown include base funding, adjustments to the base, and standard budget adjustments, but do not include the 5% turnover reduction adopted for the program under Motion #12.

B. Bonding and General Purpose Revenue

14. In addition to recommending FED for the southeast megaprojects program, AB 43/SB 70 would also provide the program with $140.9 million in transportation fund-supported, general obligation bonds in 2023-25. The Department traditionally uses some bonding for the southeast megaprojects program. Borrowing for such transportation projects carries several advantages, particularly for large projects that have a long lifespan. Because bonding spreads the costs of a project over its useful life, it allows future users to share in the cost of the project. Bonding also reduces the need to raise taxes or reduce expenditures on other transportation programs in order to cash-finance large projects all at once. The bonding recommended for the southeast megaprojects program in 2023-25 would allow the Department to keep the East-West project on schedule, while limiting the amount of cash funding that would be needed for program in the biennium. Estimated transportation fund-supported debt service associated with the partial issuance of these general obligation bonds in the biennium would be $1,488,000 SEG in 2024-25. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at $11,304,000 SEG annually. [Alternative B1]

15. While bonding allows the Department to finance projects without the commitment of large amounts of cash funding, it also requires the Department to commit ongoing revenues for debt service payments, which include interest costs. To avoid an unsustainable level of debt service costs in the transportation fund, Department has traditionally targeted amounts of bonding that would correspond to a "healthy" level of debt service costs. In the past, a goal had been to maintain annual debt service costs that are 10% or less of gross transportation fund revenues. Table 7 provides a comparison of debt service costs and gross revenue for the transportation fund over the past 15 years.

TABLE 7

Annual Growth in Gross Transportation Fund Revenue (Excluding Federal Aid, Bond Revenue, and Transfers from Other Funds) and Transportation Fund-Supported Debt Service ($ in Millions)

Fiscal Year	Gross Transportation Revenue	Transportation Debt Service*	Debt Service as a % of Revenue
2007-08	$1,661.0	$187.5	11.3%
2008-09	1,687.3	191.0	11.3
2009-10	1,697.9	184.8	10.9
2010-11	1,715.9	197.2	11.5
2011-12	1,743.9	240.7	13.8
2012-13	1,720.3	259.5	15.1
2013-14	1,784.6	294.2	16.5
2014-15	1,808.4	314.4	17.4
2015-16	1,867.4	340.8	18.2
2016-17	1,870.7	356.2	19.0
2017-18	1,916.5	357.6	18.7
2018-19	1,912.6	362.3	18.9
2019-20	2,006.2*	371.1	18.5
2020-21	2,101.2*	361.8	17.2
2021-22	2,159.2	358.4	16.6

* Does not reflect general fund-supported debt service on bonds authorized and issued for transportation purposes.
**Vehicle title fees and certain vehicle registration fees were increased effective on October 1, 2019.

16. As shown in the table, annual debt service has exceeded the 10% debt service goal for each year shown. However, debt service as a percentage of revenue peaked in 2016-17 and has been declining more recently, primarily due to: (a) the introduction of additional revenue sources for the transportation fund, such as an increase to registration and title fees in the 2019-21 budget; and (b) the conclusion of large projects, which has reduced the need for new bonding. While DOT's debt service obligations have moderated in recent years, large upcoming projects such as the I-41 from Appleton to De Pere, I-94 East-West, and Blatnik Bridge reconstruction projects, and the southern bridge construction project in Brown County, may introduce new demand for bonding and cause the transportation debt service to revenue ratio to begin increasing again.

17. The question arises as to whether the state's transportation fund has the financial ability to support local highway infrastructure while also sustaining ongoing debt service costs for the state highway infrastructure. AB 43/SB 70 again recommends 4% annual increases to general transportation aids, the local roads improvement program (LRIP), and mass transit operating

assistance, and would also provide $50,000,000 SEG annually on an ongoing basis for an LRIP-supplemental program. When transportation fund revenues are committed to these local programs, especially on a recurring basis, it reduces the amount of revenues available to fund DOT operations and the state highway improvement program. This would again put pressure on the ability of the transportation fund to meet the state's obligations on the state highway system without additional resources or bonding.

18. While limited SEG revenues are available from the transportation fund for the improvement of both the state and local highway systems, including the debt service costs associated with the recommended bonding, the general fund has large one-time revenues available in the 2023-25 biennium. To provide an adequate level of funding to keep the I-94 East-West project on schedule in 2023-25 and fund local projects, while limiting ongoing transportation fund debt service expenditures, the $140.9 million in recommended bonding could be replaced with the one-time appropriation of $140.9 million GPR in 2023-24 for the southeast megaprojects program. This would negate the $11.3 million annually in ongoing transportation fund debt service expenditures that would be required under the bills. A continuing GPR appropriation for the southeast Wisconsin freeway megaprojects program would also need to be created in order to expend these funds. [Alternative B2]

19. In considering the demands on the general fund, GPR could also be provided to replace only half of the recommended borrowing for the I-94 East-West project. This alternative would provide $70.4 million GPR, and authorize $70.4 million in transportation fund-supported, general obligation bonds. Estimated transportation fund-supported debt service associated with the partial issuance of the general obligation bonds in the biennium would be $744,400 SEG in 2024-25. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at $5,652,000 SEG annually, while an equal amount of annual debt service would be saved compared to AB 43/SB 70. This would also require the creation of a continuing GPR appropriation for the southeast Wisconsin freeway megaprojects program to expend the GPR funding. [Alternative B3]

20. GPR-supported bonds have been used to fund state highway improvement program costs in the past, including for the southeast megaprojects program. Base level annual GPR debt service on previously issued bonds for the state highway improvement program is $87.6 million in 2023-25. Use of $140.9 million of GPR-supported bonds, rather than the recommended transportation fund-supported bonds, for the I-94 East-West project could be another strategy to provide the needed funding to the project, while limiting ongoing debt service costs in the transportation fund. This alternative would introduce ongoing debt service payments from the general fund, which could be funded with the state's ongoing general fund surplus. Like AB 43/SB 70, estimated general fund-supported debt service associated with the partial issuance of these general obligation bonds in the biennium would be $1,488,000 GPR in 2024-25. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at $11,304,000 GPR annually. [Alternative B4]

21. While the 2021-23 budget enumerated and provided $82.0 million for the I-94 East-West reconstruction project, and while final federal approval for the project is expected in 2023, some concerns regarding the project's eight-lane preferred alternative remain. Expansion of the freeway from six to eight lanes will add significant costs to the project, and may result in "induced demand"

by encouraging residents to drive on the freeway rather than utilizing alternative means of transportation, which can increase air and noise pollution for surrounding neighborhoods. Some local residents and elected officials have expressed support for using state funds to develop other modes of transportation that can provide East-West connectivity for local residents, including public transit, which could reduce the need for freeway expansion. DOT's current preferred alternative for the project would also displace one residence and six commercial buildings. Given these concerns, additional funding for the project could be denied at this time. DOT indicates that this would cause significant delays to the project's estimated timeline, including the anticipated 2025 start date for project construction. This could also increase the need for funding in the state highway rehabilitation program, as the program would likely be required to fund additional work to maintain the existing I-94 East-West corridor in a usable and safe condition in the 2023-25 biennium and beyond. [Alternative B5]

C. Restore Turnover Reduction Funding

22. Under Motion #12, the Committee earlier approved SEG and FED standard budget adjustments for the southeast megaprojects program, but also modified the standard budget adjustments under AB 43/SB 70 by increasing the turnover reduction standard budget adjustment from 3% to 5%. This revision to the turnover reduction standard budget adjustment resulted in a decrease of base funding for the program, as shown in Table 8. This change is not reflected in the discussion on the earlier alternatives in the paper.

TABLE 8

2023-25 Southeast Wisconsin Freeway Megaprojects Program
5% Turnover Reduction under Motion #12

	SEG	FED	Total
Adjusted Base Funding Level	$8,163,700	$14,640,200	$22,803,900
5% Turnover Reduction (Motion #12)	-16,600	-63,700	-80,300
Program Prior to Further JFC Action	$8,147,100	$14,576,500	$22,723,600

23. As shown in the table, this action alone resulted in a decrease in total funding for the southeast megaprojects program of $80,300 annually. The decreases of $16,600 SEG and $63,700 FED annually could be restored to the southeast megaprojects program in order to provide the same amount of funding for the program as the amount recommended in AB 43/SB 70. In addition, this action would be necessary if the AB 43/SB 70 recommendation to provide $0 SEG funds to the program (Alternative A1) were adopted, as the 5% turnover reduction decision would result in a negative appropriation of SEG funding for the program in the biennium. This alternative could also include a specification requiring that the restored funding would be used for programmatic expenditures, rather than personnel expenditures. [Alternative C1]

24. The Committee's prior decision under Motion #12 to increase the program's turnover reduction standard budget adjustment would be maintained if no further action is taken. This would

result in slightly less funding being provided to the program than would be provided under the bill. In addition, if the AB 43/SB 70 recommendation to provide $0 SEG to the program were adopted (Alternative A1), Motion #12 would result in a negative appropriation of SEG funding for the program in the biennium. [Alternative C2]

ALTERNATIVES

A. Federal Funding and Segregated Revenue

1. Make the following changes to the southeast Wisconsin freeway megaprojects program's funding: (a) reductions of $8,163,700 SEG annually; (b) increases of $24,980,100 FED in 2023-24 and $42,666,500 FED in 2024-25. This would result in $96.9 million FED and no SEG being provided to the program in the 2023-25 biennium.

ALT A1	Change to Base
FED	$67,646,600
SEG	- 16,327,400
Total	$51,319,200

2. Provide $16,816,400 FED in 2023-24 and $34,502,800 FED in 2024-25, and make no change to the SEG funding provided to the southeast Wisconsin freeway megaprojects program. This would result in $96.9 million being provided to the program in the biennium, including $80.6 million FED and $16.3 million SEG.

ALT A2	Change to Base
FED	$51,319,200

3. Take no action. Base level funding of $14.6 million FED and $8.2 million SEG annually would be provided to the southeast Wisconsin freeway megaprojects program, for total program funding of $45.6 million in the biennium.

B. Bonding and General Purpose Revenue

1. Authorize $140,873,000 in transportation fund-supported, general obligation bonds for the southeast Wisconsin freeway megaprojects program in the 2023-25 biennium. Estimated transportation fund-supported debt service associated with the partial issuance of these general obligation bonds in the biennium would be $1,488,000 SEG in 2024-25. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at $11,304,000 SEG annually.

ALT B1	Change to Base
SEG	$1,488,000
BR-SEG	140,873,000
Total	$142,361,000

2. Provide $140,873,000 GPR for the southeast Wisconsin freeway megaprojects program in 2023-24, and create a new, continuing GPR appropriation for the program in order to expend these funds.

ALT B2	**Change to Base**
GPR	$140,873,000

3. Authorize $70,436,500 in transportation fund-supported, general obligation bonds for the southeast Wisconsin freeway megaprojects program in the 2023-25 biennium, and also provide $70,436,500 GPR for the program in 2023-24. Create a new, continuing GPR appropriation for the program in order to expend the GPR funds. Estimated transportation fund-supported debt service associated with the partial issuance of the general obligation bonds in the biennium would be $744,400 SEG in 2024-25. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at $5,652,000 SEG annually.

ALT B3	**Change to Base**
GPR	$70,436,500
SEG	$744,000
BR-SEG	$70,436,500
Total	$141,617,000

4. Authorize $140,873,000 in general fund-supported, general obligation bonds for the southeast Wisconsin freeway megaprojects program in the 2023-25 biennium. Estimated general fund-supported debt service associated with the partial issuance of these general obligation bonds in the biennium would be $1,488,000 GPR in 2024-25. Once fully issued, annualized debt service associated with the issuance of these bonds would be estimated at $11,304,000 SEG annually.

ALT B4	**Change to Base**
GPR	$1,488,000
BR-GPR	140,873,000
Total	$142,361,000

5. Take no action.

C. Restore Turnover Reduction Funding

1. Provide $16,600 SEG and $63,700 FED annually for the southeast Wisconsin freeway megaprojects program, in order to restore funding for the program that was previously reduced under Motion #12, which increased the turnover reduction standard budget adjustment for the program from 3% to 5%. Specify that this funding be used for programmatic expenditures, rather than personnel expenditures.

ALT C1	**Change to Base**
SEG	$33,200
FED	127,400
Total	$160,600

2. Take no action.

Prepared by: Peter Mosher
Attachment

ATTACHMENT

Recent Biennial Funding Levels for Three Main Components of State Highway Improvement Program ($ in Millions)

Biennium	State Highway Rehabilitation	Major Highway Development	Southeast Wisconsin Freeways	Total
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	2,725.5
2019-21	1,937.8	564.2	226.4	2,728.4
2021-23	2,207.2*	565.6	82.0	2,854.8
2023-25**	$2,214.6	$591.3	$237.8	$3,043.7

Biennium	State Highway Rehabilitation	Major Highway Development	Southeast Wisconsin Freeways	Total
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	19.7	100.0
2019-21	71.0	20.7	8.3	100.0
2021-23	77.3*	19.8	2.9	100.0
2023-25**	72.8%	19.4%	7.8%	100.0%

*State highway rehabilitation program funding in the 2021-23 biennium was increased by $123.6 million in 2021-22 and $15.6 million in 2022-23 under DOT federal funding plans in each year of the biennium, as approved by the Joint Committee on Finance.
**Amounts shown for 2023-25 reflect recommended funding under AB 43/SB 70.

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June 6, 2023 Joint Committee on Finance Paper #788

Major Interstate Bridge Program -- Blatnik Bridge Reconstruction (Transportation -- State Highway Program)

[LFB 2023-25 Budget Summary: Page 646, #5]

CURRENT LAW

The major interstate bridge program provides funding for projects that construct or reconstruct a state highway bridge crossing a river that forms the boundary of the state, for which the state's share of costs is estimated to exceed $100 million. The St. Croix Crossing project, which replaced a bridge connecting Stillwater, Minnesota with Houlton, Wisconsin, is the only project that has been completed under the program. The project was completed in 2017 for a total cost of $693.6 million, which was shared between the Minnesota and Wisconsin Departments of Transportation.

DISCUSSION POINTS

1. The Wisconsin Department of Transportation (DOT) indicates that a project to reconstruct the John A. Blatnik Bridge, which spans approximately 1.5 miles over the St. Louis Bay between the cities of Superior, Wisconsin and Duluth, Minnesota is the next project that would likely need to be funded from the major interstate bridge program. The Department indicates that the bridge serves as a local, regional, and international connection for vehicle traffic between Minnesota and Wisconsin, and carries approximately 33,000 vehicles per day, including higher volumes of traffic during summer months. The bridge also carries billions of dollars in freight each year, and serves as a key freight corridor for the twin ports of Duluth and Superior, which are the largest ports on the Great Lakes and serve a range of industries including agriculture, forestry, mining, and manufacturing.

2. The bridge was constructed in 1961, and the Department indicates that it is near the end of its useful life due primarily to the significant truss deterioration. This has led to the recent

introduction of a 40 ton weight restriction that prevents oversize vehicles from driving on the bridge, and has also caused Minnesota DOT to designate the bridge as high risk for service interruption in its statewide bridge inventory. In addition, lane closures, which cause delays for road users, are now regularly required due to annual safety inspections, regular maintenance that occurs up to three times a year, and reactionary structural repairs that are required approximately once every four years. The bridge, approaches, and primary access interchanges experience high crash rates and heavy congestion, especially during peak periods. In particular, the current interchanges on the Wisconsin side of the bridge experience safety and congestion issues, as they include tight curves, steep grades, and a short transition from high speed freeway to local roads.

3. The Department reports that costs for the routine maintenance and inspection of the bridge have averaged approximately $200,000 annually over the past ten years. In addition, several larger structural repairs have been needed in recent years to keep the bridge open. In 2008, emergency repairs were required on the bridge's truss span. In 2012, several repairs on the bridge were carried out on the bridge for a total cost of $13.0 million. In 2015 and 2016, additional repairs to the bridge's gusset plates and floor trusses were completed for a total cost of $9.1 million. The bridge is expected to continue deteriorating in future years, and has been assigned an estimated closure date of 2030. The Department indicates that short-term repairs are no longer a viable management strategy for the bridge, and that the repairs that would be needed to keep the bridge in service beyond 2030 would cost several hundred million dollars, while not permanently addressing the bridge's structural issues.

4. The Minnesota and Wisconsin DOT's have initiated design and planning work for a project to replace the bridge, with Minnesota DOT serving as the lead agency for the project. Wisconsin DOT also indicates that it may complete improvement on related roadways and interchanges on the Wisconsin side of the bridge in conjunction with the project. The Departments have completed preliminary planning work for the project including completion of a purpose and need statement, holding public involvement meetings, and publishing a technical memo detailing a range of alternatives for the project. In addition, the Departments indicate that they have narrowed the project scope to two bridge alignment options and one interchange option. The next step for the project will the completion of an environmental assessment, which is required as part of the federal approval process, and could also lead to the selection of a preferred alternative for the project. The Department's current project schedule estimates that the design phase will conclude in 2026, and that construction will begin in early 2027 and take between four and six years. However, the Department also believes that the construction phase could begin as early as 2026 if alternative delivery method is selected and a sufficient level of funding is available.

5. The Departments' preliminary estimate of the cost of the project is $1.8 billion, including approximately $1.5 billion in construction costs, which would be split between the two states. However, the Departments have submitted a joint grant application for $883 million from the federal Bridge Investment Program (BIP), which would cover approximately half of the total cost of the project. The BIP was introduced by the federal Infrastructure and Jobs Act in 2021, and will provide an estimated $15.5 billion nationwide between 2022 and 2026 for projects to improve bridges. The program includes designated grant funds for large bridges, defined as bridge projects with a total cost greater than $100 million. In January, 2023, the first round of BIP large bridge grants were announced, including an award of $1.385 billion to reconstruct the Brent Spence Bridge between Cincinnati, Ohio

and Covington, Kentucky. Wisconsin DOT indicates that it expects the Blatnik Bridge project to be competitive in future rounds of the BIP, but also indicates that the project may not be eligible for a federal grant until additional planning and design work is completed, including a federal environmental assessment, as mentioned previously.

6. In addition to the BIP, Wisconsin DOT received $7.5 million for the project in congressionally-directed funding from the federal Consolidated Appropriations Act, 2023, which was enacted in December, 2022. Using the $1.8 estimated cost for the project, if the project were to receive the requested $883 million federal BIP grant, Wisconsin's estimated remaining costs for the project would be $451 million. If the project does not receive a federal grant, Wisconsin's total estimated remaining costs for the bridge would be $892.5 million. These cost estimates would make the Blatnik Bridge project one of the largest highway projects completed in the state, compared with previously-funded highway projects costing more than $1 billion such as: (a) the Interstate 94 North-South reconstruction project from the Milwaukee area to Illinois; (b) the Zoo Interchange reconstruction project in Milwaukee; (c) the Interstate 39/90 expansion project from the Madison area to Illinois; and (d) the current I-41 reconstruction project between Appleton and De Pere. Typically, the primary appropriation of funding for these projects have been made over two or three biennia when the bulk of construction work occurred. For example, $517.0 million was budgeted for the I-94 North-South project in the 2009-11 biennium, while over $400.0 million was budgeted for the Zoo Interchange in both the 2013-15 and 2015-17 biennia. DOT also anticipates over $650.0 million in project expenditures for the enumerated Interstate 41 major highway development project from Appleton to De Pere in the 2025-27 biennium. Given preliminary estimates for the cost and timeline of the Blatnik Bridge project, expenditures of this magnitude could be needed in the 2025-27 or 2027-29 biennia for the construction of the bridge, particularly if the state does not receive a federal BIP grant award for the project.

7. The Department traditionally utilizes bonding to provide revenues for some of its transportation programs, and typically pays the debt service costs associated with these bonds over a 20-year period. Borrowing for transportation projects carries several advantages. Because bonding spreads the costs of a project over its useful life, it allows future users to share in the cost of the project, and it also reduces the need to raise taxes or reduce expenditures in order to cash-finance large projects all at once. However, the disadvantages of bonding include the additional cost of interest payments, and the commitment of future revenues to of ongoing debt service expenses. To avoid an unsustainable level of debt service costs in the transportation fund, Department has traditionally targeted amounts of bonding that would correspond to a "healthy" level of debt service costs. Table 1 provides a comparison of debt service costs and gross revenue for the transportation fund over the past 15 years.

TABLE 1

Annual Growth in Gross Transportation Fund Revenue
(Excluding Federal Aid, Bond Revenue, and Transfers from Other Funds)
and Transportation Fund-Supported Debt Service
($ in Millions)

Fiscal Year	Gross Transportation Revenue	Transportation Debt Service*	Debt Service as a % of Revenue
2007-08	$1,661.0	$187.5	11.3%
2008-09	1,687.3	191.0	11.3
2009-10	1,697.9	184.8	10.9
2010-11	1,715.9	197.2	11.5
2011-12	1,743.9	240.7	13.8
2012-13	1,720.3	259.5	15.1
2013-14	1,784.6	294.2	16.5
2014-15	1,808.4	314.4	17.4
2015-16	1,867.4	340.8	18.2
2016-17	1,870.7	356.2	19.0
2017-18	1,916.5	357.6	18.7
2018-19	1,912.6	362.3	18.9
2019-20	2,006.2*	371.1	18.5
2020-21	2,101.2*	361.8	17.2
2021-22	2,159.2	358.4	16.6

* Does not reflect general fund-supported debt service on bonds authorized and issued for transportation purposes.
**Vehicle title fees and certain vehicle registration fees were increased effective on October 1, 2019.

8. As shown in Table 1, annual debt service has exceeded the 10% debt service goal for each year shown. However, debt service as a percentage of revenue peaked in 2016-17 and has been declining more recently, primarily due to: (a) the introduction of additional revenue sources for the transportation fund, such as an increase to registration and title fees in the 2019-21 budget; and (b) the conclusion of large projects such as the Interstate 94 North-South and Zoo Interchange reconstruction projects, which has reduced the need for new bonding. While DOT's debt service obligations are moderating, large upcoming projects such as the Blatnik Bridge and Interstate 94 East-West reconstruction projects may introduce new demand for bonding and cause the transportation debt service to revenue ratio to begin increasing again.

9. Assembly Bill 43/Senate Bill 70 (AB 43/SB 70) would authorize $47,200,000 in transportation fund-supported, general obligation bonding authority under the major interstate bridge program for the Blatnik Bridge reconstruction project. The Department indicates that the funds would be used for Wisconsin's share of preliminary project work such as right-of-way acquisitions, utilities

work, and project design. The recommended funding would also ensure that the project could remain eligible for federal BIL funds before the BIP concludes in 2026, and would allow the Department to maintain its estimated timeline for project construction. Debt service estimates included in the bill do not anticipate the issuance any portion of these bonds in the 2023-25 biennium. However, the bill would make bond revenues available for the project in case they would be needed. Once fully-issued, the cumulative estimated debt service payments on these bonds, which are typically paid over a 20-year period, would be $75.7 million, or an average of $3.8 million SEG per year, to be paid from the transportation fund. Additional funds would also needed in future biennia for the construction phase of the project. [Alternative 1]

10. Use of transportation fund-supported bonds to fund the Blatnik Bridge project would add a long-term SEG expenditure to the transportation fund, which has limited revenues available and significant demands related to transportation projects and infrastructure. Conversely, the general fund has large one-time revenues available. If concerns exist regarding funding demands on the transportation fund, the Committee could instead choose to provide $47,200,000 GPR in 2023-24 for the Blatnik Bridge project. This would also require that a continuing GPR appropriation be created for the major interstate bridge program in order to expend these funds. [Alternative 2]

11. As mentioned previously, Wisconsin's estimated costs for the Blatnik Bridge project could exceed $450 million with approval of a federal BIP grant, while costs could exceed $880 million if a grant were not provided. Given the availability of large, one-time revenues in the general fund for the 2023-25 biennium, the Committee could choose to provide $100,000,000 GPR for the project, which could be used to fund the preliminary work recommended under AB 43/SB 70, and also make additional funding available for construction costs for the project in future biennia. This could also limit the need for future transportation fund-supported bonding for the project. [Alternative 3]

12. GPR-supported bonds have been used to fund state highway improvement program costs in the past. Base level annual GPR debt service on bond issues to date for the state highway improvement program is $87.6 million in 2023-25. Use of $47.2 million in GPR-supported bonds for the Blatnik Bridge project could be another strategy to provide the needed funding to the project, while limiting transportation fund expenditures. This alternative would introduce ongoing debt service payments from the general fund, which could be funded with the state's ongoing general fund surplus. This would require the creation of a new GPR-supported, general obligation bonding authorization for the major interstate bridge program, amending an existing GPR debt service appropriation to refer to the new bonding authorization, and authorize of $47,200,000 in GPR-supported, general obligation bonds. [Alternative 4]

13. Given the high estimated cost of reconstructing the Blatnik Bridge, the limited availability of revenue in the transportation fund, and the estimate under the bill that no bonds would be issued for the project in the 2023-25 biennium, the Committee could choose not to provide funding for the project at this time. DOT indicates that it would be able to fund preliminary design costs for major interstate bridge projects from its state highway rehabilitation program under current law. However, the Department notes that if funding for the project were not approved in 2023-25, the project would not be able to progress beyond the preliminary design phase in the biennium. This could lead to delays in the project schedule, and ultimately cause the project to lose eligibility for a federal BIP grant. If the project were delayed and does not receive federal grant funds, the state's cost share

for an eventual replacement of the bridge could rise by hundreds of millions of dollars. Alternatively, if bridge is not replaced, existing crash and congestion issues on the bridge would continue, the bridge would continue to be at high risk for unintended service disruption, and emergency repairs beyond 2030 could cost hundreds of millions of dollars. [Alternative 5]

ALTERNATIVES

1. Authorize $47,200,000 in transportation fund-supported, general obligation bonding authority for the major interstate bridge program for reconstruction of the Blatnik Bridge between Superior and Duluth, Minnesota.

ALT 1	**Change to Base**
BR-SEG	$47,200,000

2. Provide $47,200,000 GPR for the major interstate bridge program for reconstruction of the Blatnik Bridge. Create a continuing GPR appropriation for the major interstate bridge program to expend the funds.

ALT 2	**Change to Base**
GPR	$47,200,000

3. Provide $100,000,000 GPR for the major interstate bridge program for reconstruction of the Blatnik Bridge. Create a continuing GPR appropriation for the major interstate bridge program to expend the funds.

ALT 3	**Change to Base**
GPR	$100,000,000

4. Create a new GPR-supported general obligation bonding authorization for the major interstate bridge program, and authorize $47,200,000 in GPR-supported, general obligation bonds. Amend an existing GPR debt service appropriation to refer to the newly-created bonding authorization.

ALT 4	**Change to Base**
BR-GPR	$47,200,000

5. Take no action.

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June 6, 2023 Joint Committee on Finance Paper #789

State Highway Maintenance (Transportation -- State Highway Program)

[LFB 2023-25 Budget Summary: Page 647, #6 and #7]

CURRENT LAW

The Department of Transportation (DOT) 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 routine maintenance work is performed by counties under contract with the state, who are later reimbursed by DOT. The Department funds the program from three sets of appropriations: (a) highway system management and operations; (b) routine maintenance activities; and (c) intelligent transportation systems and traffic control signals. Each set of appropriations include individual SEG, FED, and SEG-L appropriations.

DISCUSSION POINTS

1. This paper discusses two provisions included in Assembly Bill 43/Senate Bill 70 (AB 43/SB 70) to provide additional ongoing funds to the state highway maintenance and traffic operations program: (a) funding to the highway system management and operations appropriations for pavement marking and steel bridge spot painting; and (b) funding for routine maintenance activities to cover inflationary costs in the program. Table 1 shows the total state and federal funds provided to the state highway maintenance and traffic operations program in each biennium since 2015-17, as well as the funding recommended for 2023-25 under the bill.

TABLE 1

Biennial State Highway Maintenance and Traffic Operations Program State and Federal Funding, 2015-17 through 2021-23 ($ in Millions)

	2015-17	2017-19	2019-21	2021-23	2023-25
Hwy. Sys. Mgt. and Ops.	$175.0	$201.4	$199.2	$201.7*	$236.3**
Routine Maintenance	340.0	373.7	376.7	376.7	388.1**
Intel. Trans. Systems	20.0	20.0	19.9	19.5	19.6
Total	$535.0	$595.1	$595.8	$597.9	$644.0
% Change		11.2%	0.1%	0.4%	7.7%

*$8.8 million SEG was provided to the highway system management and operations appropriation in 2021-23 for purchasing highway de-icing salt.
**Amounts shown for the 2023-25 biennium reflect recommendations under AB 43/SB 70.

A. Highway System Management and Operations

2. The Department's highway system management and operations appropriations fund a wide range of activities to support the maintenance and functioning of the state highway system, including certain non-routine road and bridge maintenance activities such as bridge maintenance and repairs, emergency and corrective repairs from weather events and other incidents, and pavement marking. In addition, the appropriations fund salt purchases for de-icing state highways, maintenance of roadside facilities such as rest areas, and oversize and overweight vehicle routing and permitting, as well as various other activities. AB 43/SB 70 would provide $2,372,200 SEG and $12,350,000 FED annually to DOT's highway system management and operations appropriations to fund pavement marking and steel bridge spot painting activities in the 2023-25 biennium.

3. The Department anticipates that the Federal Highway Administration (FHWA) will release a new manual on uniform traffic control devices (MUTCD) in 2023, which is expected to require states to increase the width of longitudal lines, such as lane stripes, to six inches for freeways, expressways, ramps, and all other roadways with speed limits greater than 40 miles per hour. Currently, all Wisconsin roadways are striped with four inch-wide pavement markings. This requirement would to make traffic lines easier to see for human drivers, as well as autonomous vehicles. Studies have shown that this change may lead to improvement of highway safety outcomes, such as reducing personal injuries and property damage from vehicle crashes. The MUTCD was originally scheduled to be published on May 15, 2023, but FHWA has not yet released the manual. The manual is also expected to include a compliance deadline for the new pavement marking standards. The Department indicates that if it does not convert all of its eligible pavement markings to six-inch width by the anticipated federal deadline, it could cause the federal government to penalize the amount of federal transportation aid that is provided to the state in future years.

4. The Department contracts with counties to complete most state highway maintenance work, including pavement marking. The Department indicates that it would use all of the recommended $12.4 million FED annually, and $1.4 million SEG annually to compensate counties

to re-mark pavement for eligible highways in the state, in order to comply with the new federal rules. The specific costs that would be required for this work include purchasing pavement marking material and widening the road grooves that contain pavement markings. The recommended SEG would be needed to meet the federal requirements for state matching funds of at least 10% of the FED provided for pavement marking activities. Thus, the Department indicates that it would be unable to fund these contract activities with federal funds without the recommended SEG funding. The Department indicates that work would begin on roads that would experience the greatest safety benefit, which are primarily rural two-lane highways, and estimates that the recommended funding, which would be established as base level funding for the program for future years, would allow it to complete the pavement re-marking process over a seven-year period.

5. The remaining $1.0 million SEG annually in recommended highway system management and operations funding would be used to complete additional spot painting (repainting portions of a structure, rather than the entire structure) for steel bridges located on state highways. This work can prolong the useful life of steel bridges, as the paint acts a protective coating that can defend steel from corrosion. If bridges are not painted timely basis, these structures can deteriorate more quickly and accelerate the need for costly repair or replacement projects, which can be particularly expensive for more complicated structures such as lift bridges and multi-level interchanges. The state highway system currently includes over 1,200 steel bridges with an average age of approximately 50 years. While bridge painting can result in cost savings for DOT, the Department indicates that it currently has a backlog of 300 bridges that have been identified with spot painting needs. The recommended funding would be used to address this backlog at an estimated cost of approximately $12 per square foot of bridge surface.

6. Funding for pavement marking in 2023-25 will allow the Department to progress towards the expected federal pavement marking deadline, and also avoid inflationary costs and a larger volume of work that would be needed in future years if the funding were not provided. The federal aid received by DOT may be also penalized if the federal deadline is not met. The recommended funding for bridge spot painting could create long-term cost savings for the Department, as it could extend the life of state highway bridges and postpone more costly bridge repair and replacement projects. The bill would provide ongoing funding of $2,372,200 SEG and $12,350,000 FED annually for DOT's highway system management and operations appropriations, which could allow the Department to complete its pavement marking work over a seven-year period, and also fund continuing work to complete spot painting on older steel bridges located on state highways. [Alternative A1]

7. The majority of the funding recommended for DOT's highway system management and operations appropriations would be used for pavement marking activities. However, the federal government has yet to release the new MUTCD, so the specific rules and compliance deadline for pavement markings are not yet known. Given the current uncertainty around the federal standards for pavement marking, the Committee could provide DOT with the recommended $1,000,000 SEG annually for spot painting, and provide half of the recommended funding for pavement marking ($6,175,000 FED and $686,100 SEG annually). This would allow DOT to complete the recommended spot painting work and begin some pavement marking work, while also freeing up some SEG and FED revenues in 2023-25 for other purposes. [Alternative A2]

8. The majority of recommended funding is federal Highway Safety Improvement Program (HISP) funding for needed safety and structural maintenance activities. Other uses of federal HSIP funds exist, such as correcting or improving a hazardous road location or feature, or addressing other highway safety concerns, including enforcement of state laws for intoxicated, distracted, and aggressive driving. Federal HSIP funding is also used in the state highway program, particularly the state highway rehabilitation program, as well as on local highway projects. Approving the recommended SEG funding for steel bridge spot painting, while denying the recommendation for highway marking activities, would reduce the need for $1.4 million SEG annually and free up $24.7 million FED in the biennium for these other purposes. [Alternative A3]

9. Limited transportation fund revenues may be available in 2023-25. Transportation fund revenues have been revised downward in the biennium from the amounts recommended in AB 43/SB 70, as revenue collections in 2022-23 are lower than expected and the economic outlook for 2023-25 has worsened since the bill was introduced. Meanwhile, demands for the expenditure of transportation fund revenues may increase in 2023-25 and beyond due to large upcoming projects such as the I-41 reconstruction between Appleton and De Pere, the I-94 East-West reconstruction project in Milwaukee County, the reconstruction of the John A. Blatnik Bridge in Superior, and the southern bridge construction project in Brown County, as well as inflationary demands across transportation programs. Approving the recommended funding for pavement marking activities, while denying funding for spot painting would reduce the SEG funding impact on the transportation fund by $1.0 million annually. [Alternative A4]

10. The Committee could also deny the recommendation. Base level funding would still be provided to DOT's highway system management and operations appropriations, which DOT could still use to complete some of the recommended work, although it would likely need to reduce expenditures for other state highway maintenance activities to do so. [Alternative A5]

B. Routine Maintenance Activities

11. DOT's routine maintenance activities appropriations fund most of the Department's routine, corrective, and preventative maintenance work on state highways, which is performed with the goal of maintaining existing highway system infrastructure in satisfactory condition. The specific activities funded under the routine maintenance category include interim repair of highway surfaces, repair of bridges and culverts, pavement crack and pothole filling, debris removal, and winter maintenance activities such as plowing and de-icing. The Department indicates that, like the steel bridge spot painting discussed earlier, many routine maintenance activities provide long-term cost savings for the Department. As with the highway system management and operations appropriations, most of these activities are performed by counties, who are later reimbursed by DOT.

12. DOT employs an asset management strategy that utilizes performance-based analysis to determine how to most effectively invest funding in the state highway system to keep it safe, efficient, and in a state of good repair, given limited funding levels. Asset management analysis is used to determine whether particular portions of deteriorating state highways could be better addressed with more minor maintenance projects, which are less costly but may create less impact in addressing issues (i.e. safety, congestion), and may only provide temporary solutions, versus larger reconstruction or rehabilitation projects, which are more costly but can create larger, more long-term

impact. Thus, state highway maintenance is an integral component of DOT's asset management strategy for the state highway system, playing a key role in maintaining the condition of state highways and maximizing the cost-effectiveness of DOT's overall state highway improvement program. As one example, the Department's asset management strategy designates early crack filling as a required activity for preserving the condition of the state highway system.

13. In the five years from 2018-19 to 2022-23, no funding increases have been provided to DOT's routine maintenance appropriations. However, the Department indicates that inflationary costs in the program have risen over this period, resulting in reduced purchasing power for the program and a backlog of maintenance needs for the state highway system. For example, the Department indicates that over the past two years the Department has increased its machinery reimbursement rate to counties by 18% to ensure that county machinery does not deteriorate and fail. This required the Department to reallocate funding from other routine maintenance activities. Without additional funding in 2023-25 to maintain the program's purchasing power, the Department indicates that it would need to continue prioritizing funding for certain, essential activities in this manner, which could lead to the long-term deterioration of facilities and equipment, and could ultimately cause more costly maintenance work to be needed in the long term. For example, if the costs need for winter maintenance activities rise in 2023-25, the Department may be forced to allocate additional routine maintenance funds to keep state highways plowed and de-iced, while cutting funding for repairing highway surfaces, which could lead to the long-term deterioration of highway pavement conditions.

14. To cover inflationary costs in the state highway maintenance and traffic operations program, AB 43/SB 70 would provide $3,497,200 SEG in 2023-24 and $7,897,200 SEG in 2024-25 to DOT's routine maintenance activities appropriation. This would provide an ongoing funding increase of $7.9 million for the program, which is 4.2% higher than the funding level that has been provided to the program in each of the past five years. The Department indicates that these additional funds would increase routine maintenance payments to each county by an average of approximately $100,000 annually. The Department notes that SEG funding is recommended for the program, as the program can receive limited FED since federal funding cannot be used for payments to reimburse counties. [Alternative B1]

15. DOT's asset management strategy utilizes analysis to determine the amounts of funding that should be invested into state highway reconstruction and rehabilitation activities, versus the amounts that should be used for state highway maintenance. Under DOT's asset management principles, funding provided for one category of activities may reduce the need for other activities, while reductions in funding for one category may increase funding needs for the other. This is a funding balance dilemma, for example, if an aging bridge cannot be replaced due to the limited availability of funding, which could result in additional maintenance expenditures being required to keep the bridge open.

16. AB 43/SB 70 would appropriate an additional $377.2 million in SEG, FED, and bonding authority for DOT's state highway program reconstruction and rehabilitation programs (state highway rehabilitation, major highway development, southeast Wisconsin freeway megaprojects, and major interstate bridge improvement). Some of this funding would be used to begin large projects such as the I-94 East-West freeway construction project in Milwaukee County, and the Minnesota-Wisconsin

John A. Blatnik Bridge reconstruction project in Superior. Other funding would be used to increase activities in the state highway rehabilitation program. Thus, there may be less need for additional state highway maintenance funding in the biennium, as the additional funding recommended for DOT's state highway reconstruction and rehabilitation programs could already fund the repair of some of the most significant deteriorating portions of the state highway system.

17. Given the potential increase in funding for DOT's other state highway improvement programs, as well as the limited availability of transportation fund revenues in the 2023-25 biennium, the Committee could choose to provide half of the recommended funding for routine maintenance activities [Alternative B2] or deny the recommendation [Alternative B3]. As a result, less funding would be available for counties to maintain state highway infrastructure in the biennium.

ALTERNATIVES

A. Highway System Management and Operations

1. Provide $12,350,000 FED and $2,372,200 SEG annually to DOT's highway system management and operations appropriations. This would establish ongoing increases of $12,350,000 FED and $2,372,200 SEG annually to base level funding for the appropriations for future years. The Department indicates that the funding would be used to widen pavement markings on state highways over a seven-year period, and provide ongoing support for spot painting on steel bridges located on state highways.

ALT A1	**Change to Base**
FED	$24,700,000
SEG	4,744,400
Total	$29,444,400

2. Provide $6,175,000 FED and $1,686,100 SEG annually to DOT's highway system management and operations appropriations. Approximately $1,000,000 SEG annually would be used for spot painting steel bridges located on state highways, while the federal funds and $686,100 SEG annually would be used for pavement marking activities. This would establish ongoing increases of $6,175,000 FED and $1,686,100 SEG annually to base level funding for the appropriations for future years.

ALT A2	**Change to Base**
FED	$12,350,000
SEG	3,372,200
Total	$15,722,200

3. Provide $1,000,000 SEG annually to DOT's highway system management and operations appropriations for spot painting for steel bridges located on state highways. This would

establish an ongoing increase of $1,000,000 SEG annually to base level funding for the appropriations to continue funding this work in future years.

ALT A3	Change to Base
SEG	$2,000,000

4. Provide $12,350,000 FED and $1,372,200 SEG annually to DOT's highway system management and operations appropriations for pavement marking activities. This would establish ongoing increases of $12,350,000 FED and $1,372,200 SEG annually to base level funding for the appropriations, which could be used to widen pavement markings on state highways over a seven-year period.

ALT A4	Change to Base
FED	$24,700,000
SEG	2,744,400
Total	$27,444,400

5. Take no action.

B. Routine Maintenance Activities

1. Provide $3,497,200 SEG in 2023-24 and $7,897,200 SEG in 2024-25 to DOT's routine maintenance activities appropriation to cover inflationary costs in the program. This would establish an ongoing increase of $7,897,200 SEG annually to base level funding for the appropriation for future years.

ALT B1	Change to Base
SEG	$11,394,400

2. Provide $1,748,600 SEG in 2023-24 and $3,948,600 SEG in 2024-25 to DOT's routine maintenance activities appropriation to cover inflationary costs in the program. This would establish an ongoing increase of $3,948,600 SEG annually to base level funding for the appropriation for future years.

ALT B2	Change to Base
SEG	$5,697,200

3. Take no action.

Prepared by: Peter Mosher

TRANSPORTATION

State Highway Program

LFB Summary Item for Which No Issue Paper Has Been Prepared

Item #	Title
1	State Highway Improvement Program Summary