



Legislative Fiscal Bureau

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July 16, 2015

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Transportation: 13.10 Request for Appropriation Supplement for the Highway System Management and Operations Appropriation -- Agenda Item II

REQUEST

The Department of Transportation (DOT) requests a supplement of \$15,885,100 SEG in 2014-15 for the highway system management and operations appropriation. Because the Department has already expended or encumbered \$15,885,100 in excess of the funding available in this appropriation, this supplement would prevent the appropriation from closing the fiscal year in deficit. The supplement would be made from the unappropriated balance of the transportation fund.

BACKGROUND

The state highway maintenance and traffic operations program is responsible for a variety of activities related to the upkeep of state highways and highway rights-of-way, including minor repair of pavements and bridges, winter maintenance (such as snow plowing and ice removal), mowing and vegetation management, and the maintenance of highway rest areas and waysides. Most of this work is performed by counties under contract with the state. A separate component of the program is responsible for the installation, repair, and maintenance of signs, highway lighting, pavement marking, and traffic signals, as well as for some limited emergency or corrective maintenance activities (generally performed by private contractors). Prior to 2013-15, these activities had been funded from a single SEG appropriation.

The 2013-15 biennial budget (Act 20) modified the appropriation structure for the program, by creating two new, SEG appropriations to replace the single SEG appropriation which had funded the principal activities of the highway maintenance, repair, and traffic operations program. Under the modified structure, the appropriation for routine maintenance activities funds the work done by counties on state highways under contract with the state. In 2014-15, \$170,000,000 was appropriated for this purpose. The highway system management and operations appropriation was

funded at \$82,881,000 in 2014-15 to support three maintenance program areas: highway maintenance, bridge inspection and maintenance, and traffic operations.

Although other winter maintenance costs are generally paid from the routine maintenance appropriation, purchase of deicing salt for winter maintenance of roads is paid out of the highway system management and operations appropriation. The Department purchases salt centrally and distributes it to counties for use on state highways as needed. This funding request would only provide additional resources to the highway system management and operations portion of the maintenance program and would not provide additional resources for routine county maintenance of state highways.

In several instances during the past decade, often due to the variability of winter maintenance costs, the Department has requested additional funding for the program, either as separate legislation or under s. 13.10 of the statutes. In some cases, the funding has been transferred to the program from the SEG appropriation for the state highway rehabilitation program, whereas in other instances funding has been provided through the reallocation of other resources, such as SEG transportation funding and federal highway aid. Table 1 shows the funding supplements approved by the Committee or by the Legislature since 2006-07.

TABLE 1

**Budget Supplements for Highway Maintenance
(\$ in Millions)**

<u>Fiscal Year</u>	<u>Amount</u>	<u>Source</u>
2006-07	\$16.0	Federal aid allocation
2008-09	24.8	Budget adjustment bill, SEG appropriation
2010-11	33.0	SEG appropriation transfer under s. 13.10
2012-13	25.0	SEG appropriation transfer under s. 13.10
2013-14	27.4	SEG appropriation supplement under s. 13.10

Most recently, in June, 2014, the Committee approved a 2013-14 supplemental funding request for \$16.0 million for the appropriation for routine maintenance activities and \$11.4 million for the appropriation for highway system management and operations under s. 13.10 of the statutes. These appropriation supplements were made from the unappropriated balance of the transportation fund. With the addition of these supplements (\$27.4 million), total state highway maintenance program funding in 2013-14 was equal to \$252.9 million.

ANALYSIS

The Department submitted a request under s. 13.10 of the statutes for a supplement of \$15,885,100 SEG in 2014-15 to the highway system management and operations appropriation. In 2013-15, total program resources provided to date for the highway system management and operations appropriation equal \$94,244,700 in 2013-14 and \$82,881,000 in 2014-15. Table 2 provides an overview of the components in the Department's request.

TABLE 2

2014-15 Supplemental Funding Request

	<u>Amount Requested</u>
Road Salt	
Replenish Pre-Season Salt Inventory	\$11,663,400
Unbudgeted County Salt Purchase	<u>276,900</u>
Subtotal	\$11,940,300
Traffic Operations Maintenance	
Lighting and Signal Pole Repairs	\$390,000
Sign Bridge Inspection and Repair	1,400,700
Pavement Marking	<u>299,000</u>
Subtotal	\$2,089,700
Signage Conversions	
USH 41 to I-41 Signs	\$1,240,400
70 MPH Signs	<u>238,700</u>
Subtotal	\$1,479,100
Highway System Utility Costs	
	\$376,000
Total	\$15,885,100

Because the Department has already expended or encumbered these funds for the maintenance purposes discussed above, the total amount requested (\$15,885,100 SEG) would be required to balance this appropriation prior to the final closeout of 2014-15. With regard to similar situations in the past, the Legislative Audit Bureau has indicated that state agencies may not make payments in excess of funding budgeted by the Legislature and that it would be improper for the Department to cover program expenditures already paid in a prior fiscal year with funding budgeted by the Legislature for the current biennium.

The following subsections discuss the various components of the Department's request:

a. *Road Salt Purchases.* The Department estimates the amount of deicing road salt needed by taking 150% of the last five years' average salt usage in each county, or the highest amount ever used by each county, whichever is larger. DOT then purchases about five-sixths of this total amount "up-front" and signs a contract with a vendor to hold the remaining one-sixth of this total amount of salt in reserve, to be purchased only if needed. These bulk purchases are generally made from large salt vendors such as the North American, Morton, Cargill, and Detroit salt companies.

Based on salt procurement and usage information updated since the Department's request was submitted, in 2014-15, DOT paid an average price of \$68.74 per ton for salt. During the period from 2009-10 through 2013-14, average, annual salt usage was 526,500 tons. Following the methodology outlined above, in 2014-15, DOT expended \$38,863,400 for salt (or 565,376 tons).

When added to an existing inventory from the prior year of 105,053 tons, total available salt (excluding reserve salt held by the vendor) was equal to 670,429 tons. Because of competing resource needs in the maintenance program, the Department only budgeted \$27,200,000 for salt purchases for 2014-15, or \$11,663,400 less than the actual amount expended for this purpose. It should be noted that in the prior two years, average salt usage was equal to 644,700 tons.

Because of the relatively more mild 2014-15 winter season, the Department's total salt usage was equal to 384,871 tons. As a result, the remaining salt inventory (which will be available for use in 2015-16) is equal to 285,600 tons. This compares to an average, year-ending reserve of 191,600 tons during the 2009-10 through 2013-14 period. Although this is a relatively large amount of "leftover" salt, it is important to note that the transportation safety and economic consequences of running out of salt during a harsher-than-expected winter are potentially severe, as roadways can become impassable in the absence of adequate deicing salt applications. Further, a relatively large initial salt purchase, even if it exceeds the actual amount used in a given winter, may be a hedge against the typically higher cost of purchasing additional salt during high-demand winter months. Lastly, it should be mentioned that any excess salt purchased in one year reduces the amount needed in the next, as any continuing salt in the inventory can be used in the subsequent winter season.

Despite the less severe winter weather in many parts of the state, some areas experienced disproportionately inclement conditions. In Barron, Florence, Marinette, and Trempealeau counties, DOT purchased 3,928 tons of "vendor reserve" salt for these areas, at a further cost of \$276,900 (an average price of \$70.49 per ton). Vendor reserve salt is the contractual stockpile from which the Department may purchase a guaranteed amount of salt on an as-needed basis. Although the Department could have moved existing salt supplies from one county to another to make up the shortfall in these areas, this would have resulted in the need to pay transportation costs for the same salt twice and reduced the remaining supply in other counties for the remainder of the winter.

b. *Traffic Operations Maintenance.* The Department also requested funding for three purposes related to traffic operations maintenance: (a) lighting and signal pole inspection and repair; (b) sign bridge inspection and repair; and (c) pavement marking.

Lighting and signal poles (called "mono-tubes" in the Department's request) are the metal arms designed to support lights and signals over intersections. DOT has installed over 1,000 such structures at high-risk intersections on state highways since 2009. These structures have a number of bolts that must be periodically replaced in order to prevent portions of these structures from collapsing into intersections. As a result of these installations, inspection costs have increased and the Department reports that it was unable to absorb the \$390,000 cost of repairing these structures within its 2014-15 maintenance budget. Sign bridges are metal structures that overhang highways to which directional signage is affixed. As with the lighting and signal structures, sign bridges must be inspected and repaired in order to prevent the potential collapse of these structures onto highway facilities. In 2014-15, DOT expended \$1,900,700 for this purpose. Because the maintenance of these structures is technical and requires specialized equipment, this work is performed by private contractors and is not included under the scope of the routine maintenance activities performed by county maintenance crews. The Department decided to expend funds in

2014-15 for these activities because of the safety implications of delaying inspection and repair of these structures. DOT's total budget allocation for inspection of these structures is \$500,000 annually.

The Department also expended \$299,000 in excess of budgeted amounts in 2014-15 for pavement marking. This action enabled the Department to match an additional \$1,160,000 in federal funds that had been carried over from the prior fiscal year for the purpose of pavement marking maintenance. In its submission, DOT notes that SEG funding for pavement marking has been minimal in recent biennia (\$1,127,200 SEG annually), which has led to highway safety concerns in this regard. The Department believes that this additional funding was needed in 2014-15 because of safety considerations and transportation system user concerns related to pavement marking condition expressed in a 2012 departmental survey.

c. *Signage Conversions.* Two signage conversion projects in spring, 2015, resulted in unbudgeted expenditures included under DOT's request. As a result of federal and state actions, a portion of USH 41 was converted to an interstate highway, from near the City of Milwaukee to slightly north of the City of Green Bay. As a consequence, signs incorrectly referencing the former highway designation needed to be replaced. The total cost of the USH 41/I-41 signage conversion was \$6,201,800, of which \$1,240,400 (20%) was paid using state segregated funds, with the rest covered through the use of federal highway aid. In addition, 2015 Act 19 allowed an increase in the speed limit on freeways and certain expressways from 65 miles per hour to 70 miles per hour, which resulted in the need for updated signage in various locations throughout the state. DOT indicates that the total cost of resigning related to the 70 miles per hour signage conversion was \$238,700 SEG. Although DOT could have waited until 2015-16 to expend funds related to these activities, the Department felt that delaying the installation of the updated signage would have resulted in confusion for the traveling public, and, in the case of the speed limit change, could have been problematic for law enforcement.

d. *Highway System Utility Costs.* The Department also requested \$376,000 SEG in 2014-15 to pay for expenditures for traffic device-related utility costs in excess of budgeted amounts. As indicated in the Department's request, information technology and energy costs related to traffic management on the state's highway system have grown by an estimated 42.5% since 2010. The Department expects that these costs will continue to grow due to the increasing use of intelligent transportation system devices and information technology for traffic management. Because the systems that generated these costs are integrated into the existing transportation infrastructure, DOT indicates that the costs were not deferrable.

Because the most recent estimate of the transportation fund's 2013-15 closing balance accounted for the Department's \$15.9 million request, if the Committee were to approve this supplement as requested, there would be no effect on the estimated \$21.2 million transportation fund balance expected under the 2015-17 budget. [Alternative #A1] Considering that in the absence of this funding supplement, the highway system management and operations appropriation would end the biennium in deficit, which would violate the Legislative Audit Bureau's directive, denial of the request could prove challenging for the Department. However, if the Committee believes that DOT should have deferred expending or encumbering funds in excess of the

appropriated amount for any of the requested items, it could opt to reduce funding in 2015-16 for the highway system management and operations appropriation. [Alternatives #A2a through #A2h] Nevertheless, given that the Department has requested supplemental maintenance funding in five of the past 10 fiscal years, it is probable that any such reduction would increase the likelihood that DOT would submit another emergency funding supplement to the Committee in 2015-16.

Due to the ongoing solvency issues in this program area, the Committee could also decide to adopt a provision stipulating that the approval of future requests for maintenance funding under s. 13.10 of the statutes would be contingent upon the Department's submission of quarterly reports to the Committee regarding the fiscal status of the routine maintenance and highway system management and operations appropriations. This report could be required to include the following information: (a) a summary of the Department's planned expenditures from these appropriations through the end of the current fiscal year; (b) estimates of the current and anticipated ending balances of these appropriations in the current fiscal year; and (c) a list of any anticipated, unfunded maintenance activities and the related costs for which DOT believes it will need funding in excess of annually appropriated amounts in the current fiscal year. [Alternative #B1] The Department of Health Services is required to submit a similar fiscal report to the Committee every 90 days for the medical assistance program.

ALTERNATIVES

A. Highway System Management and Operations Appropriation

1. Approve the Department's request for an appropriation supplement of \$15,885,100 SEG in 2014-15 from the transportation fund to the highway system management and operations appropriation.

2. Approve the Department's request for an appropriation supplement of \$15,885,100 SEG in 2014-15 from the transportation fund to the highway system management and operations appropriation. Reduce the Department's highway system management and operations appropriation by one or more of the following amounts in 2015-16, as related to the Department's expenditure of funds for this purpose in 2014-15 in excess of appropriated amounts:

2015-16 Highway System
Management and Operations
Appropriation Reduction

Road Salt

a.	Replenish Pre-Season Salt Inventory	-\$11,663,400
b.	Unbudgeted County Salt Purchase	-276,900

Traffic Operations Maintenance

c.	Lighting and Signal Pole Repairs	-390,000
d.	Sign Bridge Inspection and Repair	-1,400,700
e.	Pavement Marking	-299,000

Signage Conversions

f.	USH 41 to I-41 Signs	-1,240,400
g.	70 MPH Signs	-238,700

Highway System Utility Costs

h.	Utility costs	-376,000
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3. Deny the request.

B. Reporting Requirement

1. Stipulate that the approval of future requests for maintenance funding under s. 13.10 of the statutes are contingent upon the Department's submission of quarterly reports to the Committee regarding the fiscal status of the routine maintenance and highway system management and operations appropriations. Specify that these reports include the following information: (a) a summary of the Department's planned expenditures from these appropriations through the end of the current fiscal year; (b) estimates of the current and anticipated ending balances of these appropriations in the current fiscal year; and (c) a list of any anticipated, unfunded maintenance activities and the related costs for which DOT believes it will need funding in excess of annually appropriated amounts in the current fiscal year. Require that these reports be submitted to the Committee no later than 10 business days following the first day of each quarter of the fiscal year, beginning with the report due in October, 2015.

2. Take no action.

Prepared by: John Wilson-Tepeli