



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #910

### **Transportation Economic Assistance Program -- Funding Level (DOT -- Local Transportation Projects)**

[LFB 2001-03 Budget Summary: Page 657, #1]

#### **CURRENT LAW**

DOT makes grants under the transportation economic assistance (TEA) program to local units of government for up to 50% of the cost of transportation improvements designed to facilitate business development projects that help create or retain jobs in Wisconsin. Typically, the grants are for the improvement or construction of roads or rail spurs to improve the connection between existing or proposed manufacturing plants or industrial or office parks to the overlying transportation system.

In making grants under the TEA program, DOT must consider, among other things, the following: (a) whether or not the grant would be used for a justified transportation need; (b) the number of jobs that would be created or retained in the state if the project is constructed; (c) the cost of the project per job created or retained; (d) whether or not the improvement is likely to be made without the grant; (e) whether or not the project would be in an area of high unemployment or low average income; (f) the financial soundness of the business or businesses that would benefit from the project; and (g) whether or not the project would have negative consequences for other businesses.

Base funding for the TEA program is \$3,500,000 SEG and \$3,500,000 SEG-L. The SEG-L amount represents the local match required under the program.

#### **GOVERNOR**

Provide \$1,750,000 SEG and \$1,750,000 SEG-L in 2001-02 and \$3,500,000 SEG and \$3,500,000 SEG-L in 2002-03, to increase total state funding for the TEA program to \$5,250,000 SEG in 2001-02 and \$7,000,000 SEG in 2002-03.

## DISCUSSION POINTS

1. The TEA program was created in 1987-88 with an annual budget of \$3,000,000. This level of funding was retained for six years, until 1993-94, when the annual funding for the program was increased to the current \$3,500,000. In 1988-89, the Joint Committee on Finance approved a DOT request under s. 13.10 of the statutes to provide an additional \$3,000,000 for the program on a one-time basis. As of March 1, 2001, a total of 201 grants have been awarded under the program, totaling \$48.1 million. DOT typically has three or four grant application cycles per year.

2. DOT indicates that attempts are made to fund most or all submitted projects as long as it is determined that the business that would benefit from the proposed TEA project is financially sound, the project would be at risk of not happening without the TEA grant and the business is willing to guarantee that the project will create a certain number of jobs. Occasionally, this means that some project applications are deferred from the grant cycle for which the application was submitted to later cycles before receiving a grant.

3. Other transportation assistance grant programs administered by DOT typically do not have enough funding to provide grants to all eligible applicants. For instance, the amount of funding provided for the town road improvement discretionary program in 1999-01 was enough to approve only about one-third of grants requested. The amount of funding provided for the congestion mitigation and air quality (CMAQ) improvement program also funds only about one-third of the total amount of grants requested. The amount of funding provided for the transportation enhancements program is enough to fund only about one-fourth of the total amount requested.

4. Like the TEA program, other DOT grant programs have a ranking process to help program managers determine which projects are most justified. The fact that the demand for funding in these other programs significantly exceeds the amount of available funds may help ensure that only the most justified projects are funded. This may not currently be the case in the TEA program, since few projects are ever completely rejected.

5. Given that the demand for TEA grants in relation to the amount of funding available for making grants is less than that for other transportation grant programs, it may be determined that a funding increase is not justified or that funding needs are more urgent in other transportation programs.

6. Several factors, besides the possibility that there is a lower inherent demand for TEA grants than for other transportation assistance grants, may explain why the number of applications for TEA grants does not significantly exceed the program's ability to fund them. First, TEA grants require a 50% local match, while most other transportation assistance programs require only a 20% local match. Second, DOT indicates that some potential TEA program applicants are notified that their project would be unlikely to qualify or compete well for funding before a formal application is submitted, which is not the case in the other assistance programs. Finally, TEA projects typically represent an expansion or enhancement of the local transportation system, whereas the type of projects done under the local highway and bridge programs typically involve

more routine rehabilitation that will likely be done with or without assistance from the state. In other words, there is a strong incentive to apply for assistance because it may make the difference between a local government paying 20% of the project cost and paying the full cost. However, projects funded under the CMAQ and transportation enhancements programs are also generally things that would not otherwise occur.

7. The Committee may determine that the intent of the TEA program, unlike other transportation assistance programs, should be to fund most or all eligible projects. The fact that TEA projects require at least a 50% local match may help ensure that only projects that have substantial public benefits are submitted to DOT for assistance.

8. The bill would double the size of the program by the second year of the biennium. Since few, if any, eligible projects are currently denied funding, there may not be enough demand for TEA grants to use all of the funding provided by the bill. A lower level of funding could be provided and still ensure, with reasonable certainty, that all or most projects will receive funding.

9. DOA indicates that additional funding was provided for the program in anticipation that the demand for TEA grants would increase if the program is actively promoted. The bill would have created a rural policy advisor position in the Governor's office, which could have been used to promote the TEA program. However, the Committee previously decided not to approve this provision.

10. In its budget request, DOT did not ask for a funding increase for the TEA program. However, DOT's Division of Investment Management, which administers the TEA program, had asked the Department's Office of Policy and Budget to consider requesting an increase in funding for the program. In this request, the Division indicated that demand for grants under the program has increased and an increase in funding would be required to provide grants to all eligible projects. The maximum amount requested by the Division was \$500,000 SEG annually.

11. DOT is currently considering applications for a final round of project awards for 2000-01, for which \$880,600 in funds are available. Four applications have been received for this award cycle. Initially, the total amount of funds requested was \$1.8 million. However, knowing that the amount of available funds is limited, three of the four applicants have reduced the amount that they are asking for to improve their chances of receiving a grant. The total now being requested is \$1.4 million. The "unfunded" amount, therefore, would be approximately \$500,000. If it is determined that the current base of the program is sufficient to fund the ongoing demand for the program, but that additional amounts should be provided to prevent projects in the current cycle from delaying projects in future cycles, an additional \$500,000 could be provided in 2001-02 only. Under this alternative, funding would remain at the base level of \$3,500,000 in 2002-03 and ongoing needs could be reevaluated during the next budget cycle.

12. There may be some indication that the ongoing demand for TEA grants is higher than the current level of funding, but lower than the amount that the Division of Investment Management had requested for the program. Since the TEA program is funded with a continuing appropriation, amounts that are not used in one year may be used in following years. It is not

uncommon for less than \$3,500,000 in grants to be awarded in some years and more than \$3,500,000 in grants to be awarded in other years. For instance, only \$2.9 million was awarded in both 1996-97 and 1997-98, but \$4.8 million was awarded in 1998-99. Largely due to a balance of unused funds from prior years, the average amount of grants awarded in the past four years (assuming that the balance of funds remaining in 2000-01 will be used) is \$3.8 million. An annual increase of \$300,000 would provide this amount of funding on an ongoing basis.

13. The 1993-95 budget authorized DOT to make loans under the TEA program, specifying that the criteria for making loans and procedures for loan repayment must be established by rule. DOT, however, has not promulgated rules for making loans. The Department made a decision not to issue loans, in part, because of the additional staff that would be required to administer a loan program. DOT indicates that the process of evaluating loan applications and coordinating repayments would require an additional 1.5 FTE at a cost of \$60,000 annually.

14. If the Committee determines that the ongoing demand for TEA grants is likely to exceed the amount of funding available, but that providing additional funding is not a priority, one alternative would be to require DOT to offer a certain amount of assistance to TEA applicants in the form of loans instead of grants. Over time, loan repayments could increase the total amount of funding available for making grants and other loans. In order to encourage the use of loans, DOT could be required to give priority to funding projects for which the applicant has indicated a willingness to accept a TEA loan for all or a part of the state share. The Committee could provide an additional 1.5 FTE and \$60,000 SEG for administering this program or not provide this funding, which would require the Department to reallocate resources to administer the loan program.

15. If DOT were required to reserve 20% of the amount provided for the program for loans and no increase in funding is provided, the Department would be able to make \$700,000 in loans annually and \$2,800,000 in grants annually. In order to make the loans, DOT would have to first promulgate rules establishing the criteria for making loans and the procedures for repayment, including what interest rate would be charged, if any. In order to give DOT time to promulgate rules, the loan requirement could be made to begin in 2002-03.

## **ALTERNATIVES TO BILL**

### **A. TEA Program Funding**

1. Approve the Governor's recommendation to provide \$1,750,000 SEG and \$1,750,000 SEG-L in 2001-02 and \$3,500,000 SEG and \$3,500,000 SEG-L in 2002-03 for the transportation economic assistance program.

2. Modify the Governor's recommendation by reducing the amount of funding provided for the transportation economic assistance program by \$1,250,000 SEG and \$1,250,000 SEG-L in 2001-02 and \$3,500,000 SEG and \$3,500,000 SEG-L in 2002-03 to provide a \$500,000 above-base increase in state funding for the program in the first year, which would be enough to fund a potential backlog of projects from 2000-01.

<b>Alternative A2</b>	<b>SEG</b>	<b>SEG-L</b>	<b>TOTAL</b>
<b>2001-03 FUNDING</b> (Change to Bill)	- \$4,750,000	- \$4,750,000	- \$9,500,000

3. Modify the Governor's recommendation by reducing the amount of funding provided for the transportation economic assistance program by \$950,000 SEG and \$950,000 SEG-L in 2001-02 and \$3,200,000 SEG and \$3,200,000 SEG-L in 2002-03. This would provide an above-base increase of \$300,000 annually for the program.

<b>Alternative A3</b>	<b>SEG</b>	<b>SEG-L</b>	<b>TOTAL</b>
<b>2001-03 FUNDING</b> (Change to Bill)	- \$4,150,000	- \$4,150,000	- \$8,300,000

4. Maintain current law.

<b>Alternative A4</b>	<b>SEG</b>	<b>SEG-L</b>	<b>TOTAL</b>
<b>2001-03 FUNDING</b> (Change to Bill)	- \$5,250,000	- \$5,250,000	- \$10,500,000

## **B. TEA Loans**

1. Specify that DOT may not provide more than 80% of the state funds or loan repayments appropriated for the TEA program in the form of grants, effective with funds appropriated in 2002-03. Require DOT to give priority to funding projects for which the applicant has indicated a willingness to accept a TEA loan for all or a part of the state share. Provide \$60,000 SEG and 1.5 SEG position in 2002-03 to administer the loan program.

<b>Alternative A4</b>	<b>SEG</b>
<b>2001-03 FUNDING</b> (Change to Bill)	\$60,000
<b>2001-03 POSITIONS</b> (Change to Bill)	1.50

2. Specify that DOT may not provide more than 80% of the state funds or loan repayments appropriated for the TEA program in the form of grants, effective with funds appropriated in 2002-03. Require DOT to give priority to funding projects for which the applicant has indicated a willingness to accept a TEA loan for all or a part of the state share. Under this alternative, the Department would be required to administer a loan program, but would have to reallocate resources if additional staff are needed to administer the program.

3. Take no action.

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