



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

May 29, 2001

Joint Committee on Finance

Paper #924

Major Highway Development -- Funding Level (DOT -- State Highway Program)

[LFB 2001-03 Budget Summary: Page 664, #5]

CURRENT LAW

Major highway projects are defined as projects that have an estimated cost exceeding \$5,000,000 and consist of at least one of the following: (a) construction of a new highway 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 expressway to freeway standards.

Major highway improvements are funded from three main sources: the state segregated transportation fund, federal highway aid and the proceeds of revenue bonds (identified as SEG-S). Base funding for the program is \$220,155,000 (\$42,299,300 SEG, \$57,948,500 FED and \$119,907,200 SEG-S).

GOVERNOR

Provide \$3,996,200 SEG and \$2,363,600 SEG-S in 2001-02 and \$11,049,400 SEG and \$10,028,700 SEG-S in 2002-03 for the program.

DISCUSSION POINTS

1. Although the appropriations schedule reflects an increase of \$10,028,700 in revenue bond proceeds for the major highway development program in 2002-03, DOA indicates that this is an error and that the Governor intended to provide an increase of just \$5,499,600. The increase in the statutory authorization of revenue bonds and the debt service estimates reflected in the transportation fund condition statement that was submitted with the bill are based on the amount that the Governor intended to provide. The revised fund condition statement (LFB Paper #895)

reflects the higher amount of bonding that is actually in the bill. Adjusting the debt service estimate in the revised condition statement to reflect the amount of bonding that the Governor intended to provide for the program would increase estimated transportation fund revenue by \$50,800 in 2002-03.

2. After making the correction to reflect the amount that the Governor intended to provide for the program, the bill would increase the program by 2.9% in 2001-02 and 4.5% in 2002-03, calculated on a base that excludes costs related to the state-funded salaries for state employees. The following table shows the proposed funding for the program by funding source, reflecting standard budget adjustments (-\$87,400 SEG annually) and the amount of additional funding that the Governor intended to provide (not the amount actually provided by the bill). The Governor would fund 54% of the program in 2001-02 and 53% of the program in 2002-03 with revenue bond proceeds, compared to 54.5% in the base year.

<u>Fund</u>	<u>2000-01 Base</u>	<u>Governor</u>	
		<u>2001-02</u>	<u>2002-03</u>
SEG	\$42,299,300	\$46,208,100	\$53,261,300
FED	57,948,500	57,948,500	57,948,500
Bonding	<u>119,907,200</u>	<u>122,270,800</u>	<u>125,406,800</u>
Total	\$220,155,000	\$226,427,400	\$236,616,600

3. At the Committee's May 23 executive session, the Committee approved a transfer of \$2,264,300 SEG in 2001-02 and \$4,732,300 SEG in 2002-03 from the major highway program to the Marquette Interchange reconstruction project and the reverse transfer of revenue bond proceeds. This would result in 55% of the Governor's intended funding level being financed with revenue bond proceeds.

4. The following table compares the rate of growth in funding since 1996-97 that would result if the funding levels in the bill (or the intended level of funding in the case of the major highway development program) were approved, for the major highway development program and several other DOT programs. The percentages shown include federal, state and revenue bond funds.

**Percentage Increase in State and Federal Funding for Various Transportation Programs
(Fiscal Years 1997-2003)**

<u>Program</u>	<u>Governor</u>
Major Highway Development*	46.1%
Mass Transit Aid	45.7
State Highway Rehabilitation**	44.1
Local Road Programs***	29.8
State Highway Maintenance	23.3

* Adjusted to reflect the amount that the Governor intended to provide in 2002-03, which is less than the amount actually in the bill by \$4,529,100.

** Does not include funding provided in a separate appropriation for the reconstruction of the Marquette Interchange. If this funding were included, the increase for the rehabilitation program would be 68.7%.

*** Includes general transportation and connecting highway aid, local roads improvement program and local bridge and highway improvement assistance.

5. The preceding table shows that the major highway development program has grown more rapidly than the other four transportation programs. Some have argued that the budget should be modified to produce more even growth between transportation programs.

6. Others have argued that if additional funds are available for the state highway program, the need to rehabilitate and maintain existing state highways is a higher priority than expanding highways. In this case, instead of providing an above-inflationary increase for the major highway development program, additional funding could be provided for the state highway rehabilitation or highway maintenance and traffic operations programs or for the reconstruction of the Marquette Interchange.

7. Major highway development is one of the few transportation programs that the bill would provide with a funding increase that exceeds the rate of inflation. DOA indicates that the above-inflationary increase was provided because it was felt that costs in the program are growing faster than the general rate of inflation. In this case, an above-inflationary increase would be needed to avoid the delay of some projects.

8. The cost of major highway development projects often exceeds the amount that these projects were estimated to cost at the time of enumeration. A number of factors may explain the higher cost for these projects. For example, the cost of certain project elements, particularly the cost of real estate acquisitions, has increased faster than general inflation, as measured by the consumer price index. In addition, as a project is moved through the final design stage, DOT sometimes makes changes to the scope of the project, such as the addition of interchanges, bridges, frontage roads or changes in the alignment, that add to the cost. These changes are sometimes made at the request of local communities or residents affected by the project or may be in response to unanticipated problems with the initial plans.

9. While some reasons for increases in the cost of projects may be difficult to control, the addition of features, such as interchanges or frontage roads, is a decision made by DOT based on

a consideration of available funding and the need for the additional features. These decisions, however, can result in the delay of other projects unless additional funding is provided. The Department has recently begun a process whereby changes to the scope of a project that would increase the estimated cost by more than \$500,000 must be reviewed and approved by a committee of DOT staff from all parts of the state. DOT expects that this committee will help control the costs of projects since project managers in one part of the state may be reluctant to approve changes to a project in another part of the state because of the delays that this may cause for their projects. It could be argued that the incentive for controlling costs would be reduced if funding for the program increases at a rate faster than the actual rate of inflation affecting the program.

10. If the Committee makes a decision to provide only an inflationary adjustment for the major highway development program, funding would be reduced by \$453,000 in 2001-02 and \$11,127,100 in 2002-03, reflecting current estimates of inflation of 2.7% in 2001-02 and 1.8% in 2002-03. This alternative would reduce funding in 2002-03 by \$6,598,000, relative to what the Governor intended to provide for the program in that year. DOT indicates that the likelihood that projects are delayed would increase if only an inflationary increase is provided and project costs increase at a rate faster than inflation.

11. Since some costs in the major highway development program may increase faster than the projected rate of inflation and since some of these costs, such as real estate costs and the cost of fuel, are out of the control of the Department, an above-inflationary increase may be justified. However, it should be noted that increases in the cost of certain inputs in the major highway development program are also likely to affect costs in other programs, such as the state highway rehabilitation and highway maintenance programs, as well as the costs associated with building and maintaining local roads and operating urban mass transit systems.

12. The Committee may decide to increase the program by different percentages. The following table shows several annual percentage increases and the change to the bill as modified by the Committee's previous decision to provide 55% of the program with bonding. Each of these alternatives would result in 55% of the program being funded with bonding proceeds. The final two columns show the change in estimated transportation fund revenue due to changes in debt service associated with the amount of bonding used under each scenario.

Annual Percentage Increase	<u>SEG Change to Bill</u>		<u>SEG-S Change to Bill</u>		<u>SEG-REV Change to Bill</u>	
	<u>2001-02</u>	<u>2002-03</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2001-02</u>	<u>2002-03</u>
1%	-\$1,877,400	-\$5,468,300	-\$2,294,700	-\$11,212,500	\$25,200	\$264,600
2	-893,000	-3,469,800	-1,091,400	-8,770,000	12,000	164,500
3	91,500	-1,451,700	111,800	-6,303,300	-1,200	64,100
4	1,076,000	586,100	1,315,000	-3,812,600	-14,500	-36,600
5	2,060,400	2,643,700	2,518,300	-1,297,900	-27,700	-137,500
6	3,044,900	4,720,900	3,721,500	1,241,000	-40,900	-238,700

ALTERNATIVES TO BILL

1. Modify the Governor's recommendation by deleting \$4,529,100 SEG-S in 2002-03 to provide total funding increases for the major highway development program of \$3,996,200 SEG and \$2,363,600 SEG-S in 2001-02 and \$11,049,400 SEG and \$5,499,600 SEG-S in 2002-03, which is the amount the Governor intended to provide for the program. Increase estimated transportation fund revenue by \$50,800 in 2002-03 to reflect a reduction in the amount of revenue bond debt service. This alternative would provide increases for the program of 2.9% in 2001-02 and 4.5% in 2002-03.

<u>Alternative 1</u>	<u>SEG</u>	<u>SEG-S</u>
2001-03 REVENUE (Change to Bill)	\$50,800	\$0
2001-03 FUNDING (Change to Bill)	\$0	-\$4,529,100

2. Modify the Governor's recommended funding level provided for the program as shown in the table to provide the annual percentage increases shown. Each scenario would fund 55% of the program with revenue bonds, which is the level that previous Committee action established. Modify estimated transportation fund revenue as shown to reflect changes associated with debt service on bonds. In addition, modify the bonding authorization to reflect the changes in the SEG-S appropriation.

	Annual Percentage Increase	<u>SEG Change to Bill</u>		<u>SEG-S Change to Bill</u>		<u>SEG-REV Change to Bill</u>	
		<u>2001-02</u>	<u>2002-03</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2001-02</u>	<u>2002-03</u>
a.	1%	-\$1,877,400	-\$5,468,300	-\$2,294,700	-\$11,212,500	\$25,200	\$264,600
b.	2	-893,000	-3,469,800	-1,091,400	-8,770,000	12,000	164,500
c.	3	91,500	-1,451,700	111,800	-6,303,300	-1,200	64,100
d.	4	1,076,000	586,100	1,315,000	-3,812,600	-14,500	-36,600
e.	5	2,060,400	2,643,700	2,518,300	-1,297,900	-27,700	-137,500
f.	6	3,044,900	4,720,900	3,721,500	1,241,000	-40,900	-238,700
g.	2.7 & 1.8*	-203,800	-2,969,100	-249,200	-8,158,000	2,700	106,700

* Current inflation rate projections for fiscal years 2001-02 and 2002-03.

3. Maintain current law. Modify the bonding authorization to reflect the reduction in the SEG-S appropriation and increase estimated transportation fund revenues by \$26,500 in 2001-02 and \$232,800 in 2002-03 to reflect lower debt service on revenue bonds.

<u>Alternative 3</u>	<u>SEG</u>	<u>SEG-S</u>
2001-03 REVENUE (Change to Bill)	\$259,300	\$0
2001-03 FUNDING (Change to Bill)	-\$15,045,600	-\$27,437,900

Prepared by: Jon Dyck